



Annual report

2025



Best Airline
in North America



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AIR CANADA



About forward-looking information

Certain disclosures contained or incorporated by reference in this Annual Report may include forward-looking statements within the meaning of applicable securities laws. These statements may involve, but are not limited to, comments relating to strategies, expectations, goals, targets, commitments, planned operations or future actions, including those relating to financial, operational, business, climate and other sustainability matters. Forward-looking statements, by their nature, are based on assumptions, are subject to important risks and uncertainties and cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including the factors identified in Section 18 of Air Canada's MD&A for the year ended December 31, 2025. The forward-looking statements contained or incorporated by reference in this Annual Report represent Air Canada's expectations as of the date of this Annual Report (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, except as required under applicable securities regulations.

About non-GAAP measures

Certain disclosures contained or incorporated by reference in this Annual Report may include references to non-GAAP measures. These measures include adjusted CASM, adjusted EBITDA, adjusted net income, free cash flow and leverage ratio. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. The non-GAAP measures used in this Annual Report typically have exclusions or adjustments that include one or more of the following characteristics, such as being highly variable, difficult to project, unusual in nature, significant to the results of a particular period or not indicative of past or future operating results. These items are excluded because we believe these may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's performance and may allow a more meaningful comparison to other airlines or companies. We provide an explanation of the composition of certain of Air Canada's non-GAAP financial measures and non-GAAP ratios referred to in this Annual Report and a reconciliation to the most comparable GAAP financial measure in our public disclosure file available at www.sedarplus.ca and, in particular sections 8.2 (Net Debt) and 20 (Non-GAAP Financial Measures) of Air Canada's 2025 MD&A, which sections are incorporated by reference herein.

What's inside

Navigating our annual report

The tables of contents, page headers and page and section references within our report include embedded links to the corresponding parts of the document. Our logo in the page footers brings you to the main table of contents. We hope this feature helps you find the information you are looking for conveniently. This may not work on all browsers or tablets.



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Message from the President and Chief Executive Officer

Air Canada stepped into 2025 on strong footing, building on momentum that firmly positions us for sustained growth and success. Thanks to the perseverance, professionalism and passion of our people, we strengthened our financial foundation and continued to elevate the travel experience for the more than 45.3 million customers we carried during the year, always keeping safety top of mind. At the same time, we made significant progress on our strategic priorities: **expanding our global network, modernizing our fleet, enhancing the customer journey and advancing our commitments to communities, employees and the environment.**



Strengthening our financial position

Air Canada delivered a strong financial and operational performance in 2025, despite a highly competitive landscape. Operating revenues grew to \$22.37 billion, up from \$22.26 billion the prior year. We achieved record fourth quarter revenues of \$5.8 billion, an increase of nearly seven per cent year over year, and we reported annual net income of \$644 million with diluted earnings per share of \$1.86.

We entered the year with a clear objective: ensure long-term stability and position the airline for sustainable growth. We delivered on that objective through disciplined capital management, strategic investment and a continued focus on strengthening our balance sheet. We fully repaid US\$274.2 million in outstanding four per cent Convertible Senior Notes due in 2025, reinforcing our financial flexibility and maintaining \$7.5 billion in liquidity.

Further, we continued to invest in our future, deploying \$2.9 billion in capital investments to support our fleet, technology and customer experience. We also returned more than \$850 million to shareholders through share repurchases completed under both our normal course issuer bids and our \$500 million substantial issuer bid. We remain on track toward our goal of \$2 billion in total buybacks and reducing our fully diluted share count to below 300 million by 2028; at the end of 2025, our fully diluted share count was approximately 307 million. Together, these repurchases reflect our continued confidence in our strategy and long-term outlook.

Our commitment remains clear: delivering sustainable, profitable growth while returning meaningful value to our

shareholders. The progress we made in 2025 strengthens our foundation and positions Air Canada for continued success in the years ahead.

Expanding our global network

Air Canada's network is central to our value proposition, and we expanded it meaningfully in 2025 with over 30 new routes. We continued to grow our position in Europe as one of North America's leading transatlantic carriers. We inaugurated flights to Manila from Vancouver and Edinburgh from Montréal, launched new routes such as Montréal–Berlin and Montréal–Nantes and added Ponta Delgada in the Azores as a new destination from Toronto. We also celebrated inaugural flights to Prague, Porto and Naples.

Across Latin America and the Caribbean, we notably expanded our winter schedule with four new destinations, new routes and 16 per cent more overall capacity. We relaunched non-stop service to Rio de Janeiro and resumed flights to Lima, complementing new seasonal offerings across the region. We also prepared for the resumption of Shanghai and Budapest services in 2026.

Closer to home, we strengthened our North American position. Even with transborder capacity trending lower across the industry, demand in core business markets has stabilized. In that context, we announced new U.S. flights from Billy Bishop Toronto City Airport, offering convenient daily service to New York, Boston, Washington D.C. and Chicago for business travellers. We also expanded key business connectivity with new routes from San Antonio to Toronto and from Cleveland and Columbus to Montréal. We enhanced our network in Atlantic Canada and Western

Canada with new flights linking Ottawa to Fredericton and Moncton and Vancouver to Fort McMurray.

We continued strengthening strategic partnerships as well. Air Canada and Emirates reaffirmed and scaled our multi-year co-operation, unlocking more seamless global connections for our customers, and we partnered with ITA Airways to give customers more convenient travel options when flying between Canada and Italy and beyond. More recently, we announced a new interline partnership with Pegasus Airlines, helping customers connect through major European gateways to the Turkish capital Istanbul and the coastal city of Izmir. Further, we expanded our multi-modal Landline luxury motorcoach service that provides customers in Kingston, Ont., seamless connectivity to our global hub at Toronto Pearson.

Modernizing our fleet, elevating our product

Air Canada embarked on one of the most comprehensive cabin and fleet refresh programs. This multi-year investment will deliver new interiors, upgraded amenities and consistent service across Air Canada mainline, Air Canada Rouge and Air Canada Express. For mainline, we will introduce increased overhead storage and enhanced comfort to our Airbus A220 fleet in 2026. Air Canada Rouge is transitioning to an all-Boeing 737 MAX fleet, featuring seatback entertainment and fast, free Wi-Fi offering, sponsored by Bell, and our Jazz-operated Air Canada Express fleet is receiving upgraded cabins and next-generation connectivity.

These improvements complement an array of sophisticated customer-focused updates rolled out in 2025: elevated



We are advancing accessibility for our employees and customers with disabilities and aiming to contribute to Canada's objective to be barrier-free by 2040.

Signature Class dining on Japan routes through a new partnership with Michelin-starred Chef Masaki Hashimoto; complimentary beer, wine and snacks for Economy customers; reimagined Q400 cabin amenities and new Air Canada Café locations in Montréal and in Vancouver.

Aeroplan also continued its transformation. Our award-winning loyalty program introduced new ways to earn status, new partnerships, including DINR and Chexy, and additional redemption opportunities, such as cruise packages with Air Canada Vacations. Aeroplan once again earned major accolades at the Freddie Awards, including Best Program of the Year.

Air Canada Vacations celebrated its 50th anniversary and commemorated this milestone by offering special global packages to customers.

Gaining awards and recognition

Our teams across the organization earned meaningful recognition for their hard work. Air Canada was awarded a Five Star Global Airline rating at the APEX 2026 Awards for the sixth consecutive year. Further, we were named Best Airline in North America at the 2025 Skytrax World Airline Awards and were recognized among Montréal's Top Employers for the 12th straight year, Canada's Best Diversity Employers and Canada's Top Employers for Young People.

Fostering fair, respectful negotiations

In 2025, we continued constructive negotiations with our union partner CUPE, reaching a tentative agreement that brought the labour dispute to a close. In February 2026, final wage rates for our flight attendants were established by an arbitrator, settling the wage terms of the agreement. Whether for past, present or future negotiations, each one is unique, and our long-standing history of successful bargaining reflects our commitment to a collaborative outcome for each one.

Advancing sustainability and giving back

We supported our climate-related ambition by procuring more than one per cent of Air Canada's jet fuel use in SAF and continued working toward the electrification of our ground support equipment. This included introducing our bold new livery in Vancouver and rolling out new towbar-less pushback units at Toronto Pearson airport. We also reached a major milestone in Québec City, which became our first station to operate fully electric main ground support equipment. This marks an important step toward our long-term sustainability goals.

Our commitment to communities remained steadfast as well. We worked with the Air Canada Foundation that supported more than 400 Canadian charitable organizations dedicated to the health and well-being of children and that distributed more than \$1.8 million in monetary and in-kind donations to organizations across the country through community partnerships. The Foundation also helped more than 1,000 children take part in Dreams Take Flight, continued to expand Autism Aviation Days across the country and renewed its support through its annual golf tournament, which raised \$1.3 million (net).

Championing official languages, accessibility and inclusion

I am proud of our employees who consistently align our language values with Canada's. English and French, the country's two official languages, are woven into our fabric and we have honoured our obligations under the *Official Languages Act* with unwavering dedication for more than 50 years. We are also committed to being a leader in accessible travel and employment. Through our multi-year accessibility plan, we are advancing accessibility for our employees and customers with disabilities and aiming to contribute to Canada's objective to be barrier-free by 2040. What's more, Air Canada fosters a representative and inclusive workforce where every employee feels welcome, safe and empowered to thrive. This resolve strengthens our ability to attract and retain top talent, enabling our teams to deliver exceptional service to more than 45.3 million passengers each year.

The year 2026 and beyond

On March 22, 2026, we experienced a profound loss with the tragic accident involving AC8646, which claimed the lives of two Jazz Aviation pilots. This tragedy deeply affected all of us across the Air Canada family. We extend our heartfelt condolences to their loved ones and colleagues, and we honour their professionalism and dedication. We also hold in our thoughts the crew members, passengers and firefighters impacted by this event, and we wish them strength and a full recovery.

On March 30, 2026, I announced my plan to retire as President and CEO by the end of the third quarter of 2026. After nearly 20 years of historic achievements, celebrations, and challenges, the time feels right. I am immensely proud of the dedicated team I've had the privilege to work with and will continue to lead the company and serve on its Board to ensure a seamless transition.

Air Canada enters 2026 with momentum, clarity, excitement and ambition. Our priorities to reach new frontiers remain consistent: elevate the customer experience, strengthen operational and cost resilience, invest in our people and our product and continue to expand our global network purposefully and sustainably, backed by our strategic initiatives, modern, fuel-efficient aircraft and industry-leading products. We have the capacity to navigate pressures and compete in an increasingly dynamic global environment. It is our commitment to our shareholders, customers and employees.

I am deeply grateful to everyone who has made Air Canada extraordinary and take great pride in all that we achieved together. I remain fully confident in Air Canada, and I look forward to witnessing its continued success in the years ahead.

Michael Rousseau

President and Chief Executive Officer



2025 Highlights



EMPLOYEES

About

39,300* end-2025

compared to about 39,700 in 2024

(*excludes Air Canada Vacations and Rouge employees)



NETWORK

Over **1,000** average daily flights in both 2024 and 2025



WELCOMED PASSENGERS

Over **45.3M** revenue passengers vs. about 45.9M in 2024



DIRECT DESTINATIONS

190 on **6** continents

Deep Canadian network and established international presence



NEW ROUTES LAUNCHED

Over **30**



OPERATING CAPACITY

Increased **0.8%**



ASMs

About **105B**

vs. 104B in 2024



OTP INCREASE

Improved on-time performance by **three percentage points²⁾** vs. 2024

ADJUSTED EBITDA¹⁾

\$3.12B

\$3.59B in 2024

OPERATING REVENUES

Record

\$22.4B

\$22.3B in 2024

OPERATING INCOME

\$918M

vs \$1.263B in 2024

TOTAL LIQUIDITY

\$7.5B

at Dec. 31, 2025

vs. \$9.15B at Dec. 31, 2024

LEVERAGE RATIO¹⁾

1.7x

at Dec. 31, 2025

vs. 1.4x at Dec. 31, 2024

2025 SHARE REPURCHASES

Brought back over \$850 million in voting shares through normal course and substantial issuer bids



LABOUR RELATIONS

Collective bargaining agreement finalized in 2025–26 recognizing the important contributions of our flight attendants



BILLY BISHOP

Announced the **launch of U.S. flights from Toronto Island** in a major expansion at Billy Bishop Toronto City Airport



PARTNERSHIPS

- Extended Emirates strategic partnership with major, multi-year expansion agreement
- Achieved ITA partnership milestone with new codeshare agreement



FREE WI-FI

Expanded fast, free Bell-sponsored Wi-Fi for Aeroplan Members on North America and Sun flights offered in 2025, and to be expanded to long-haul international routes in 2026



FLEET RENEWAL

- Progressed on fleet renewal by taking delivery of 13 narrow-body and one wide-body aircraft
- Worked toward securing firm order for eight A350-1000 aircraft announced in 2026, with purchase rights for eight more
- Continued progress on our comprehensive cabin renewal program



2025 SAF TARGET

Achieved target to procure minimum 1% of jet fuel use in SAF



ACCESSIBILITY REQUESTS

Over 1.46 million accessibility requests for both visible and non-visible disabilities



AIR CANADA ROUGE

Air Canada Rouge transitioning to a modern, all-Boeing 737 MAX fleet featuring seatback entertainment and fast, free Wi-Fi



LANGUAGES

2 official languages
24 route languages

AEROPLAN

- Record membership surpassing 10 million members
- Announced new partnerships with Air Baltic, Bearskin Airlines, Harbour Air, Helijet International, Chexy and DINR

CARGO

- Revenues surpassed \$1B for the first time since 2022
- Six freighters in service
- Redesigned eBooking platform launched

AIR CANADA VACATIONS

- Celebrated 50th anniversary
- Aeroplan Members can redeem points for cruise packages with Air Canada Vacations

1) Adjusted EBITDA and leverage ratio are non-GAAP financial measures. Leverage ratio is net debt to trailing 12-month Adjusted EBITDA. Such measures are not recognized measures for financial statement presentation under generally accepted accounting principles in Canada (GAAP), do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for, or superior to, GAAP results. Please refer to sections 20 "Non-GAAP Financial Measures" and 8.2 "Net Debt" of Air Canada's 2025 MD&A (which sections are incorporated by reference herein), which is available under Air Canada's profile on SEDAR+ at www.sedarplus.ca, for an explanation of the composition of these non-GAAP measures, an explanation of how they provide useful information to investors and the additional purposes for which management uses them, as well as a reconciliation to the most directly comparable GAAP measure.

2) For mainline only.



Awards and recognitions



Award-winning employer

- One of Canada's Top Employers for Young People 2025 for 2nd consecutive year
- One of Canada's Best Diversity Employers for 2025
- One of Montréal's Top Employers for 12th consecutive year
- IATA Diversity and Inclusion Awards
 - Diversity and Inclusion

Workplace Benefits Awards

- DEI program

Government of Canada

- Recipient of Emergency Management Exemplary Service Award

Manulife Supplier Summit

- Partnership Excellence award

InsideOut Awards

- Best Global Mental Health Program
- Best DEI for Mental Health Strategy

Award-winning airline

Skytrax World Airline Awards:

- Best Airline in North America
- Best Cabin Crew in Canada and North America
- Best Low-Cost Airline in Canada for Air Canada Rouge subsidiary
- Most Family Friendly Airline in North America
- Best Premium Economy Class Onboard Catering in North America
- Best Business Class Onboard Catering in North America
- World's Best Business Class Lounge Dining (Toronto Air Canada Signature Suite) for 2nd straight year
- Best Business Class Lounge in North America
- Best Low-Cost Airline for its Rouge subsidiary

APEX Awards

- Five Star Global Airline Award for 6th consecutive year
- Best Inflight Connectivity (complimentary Wi-Fi sponsored by Bell for Aeroplan Members)

ARCET Global Customer Centricity World Series Awards

- North American Winner for Employee Experience Strategy

Seattle-Tacoma International Airport

- Air Canada wins 2025 Fly Quiet Award

Travvy Awards

- Best international airline

Canadian Marketing Association Awards

- "Ticket to Dream" campaign:
 - Gold award in Editing category
 - Gold award in Cinematography category
 - Gold award in Direction category
 - Silver award in Sound Design category

"Born to Fly" campaign:

- Silver award in Influencer and Talent Marketing category
- Bronze award in Ambient Advertising category

Webby Awards

- Air Canada homepage for websites and mobile sites, best user experience honoree

Norwegian Cruise Line Holdings

- Top North American Airline Partner award

Award-winning loyalty program

Freddie Awards

- Best Program of the Year (Airline)
- Best Elite Program (Airline)
- Best Promotion (Airline)



Rise higher

Air Canada's corporate strategy framework, Rise higher, aims to elevate everything about our business domestically and internationally. Rise higher is centred around revenue enhancement and cost transformation, leveraging our international network, customer engagement and culture. We want our activities and goals to align with our four priorities:



Fund Our Future

by staying vigilant on costs, seizing on opportunities and making the right strategic investments.



Reach New Frontiers

by embracing our competitive strengths to grow our business, expanding our international reach and exploring new opportunities.



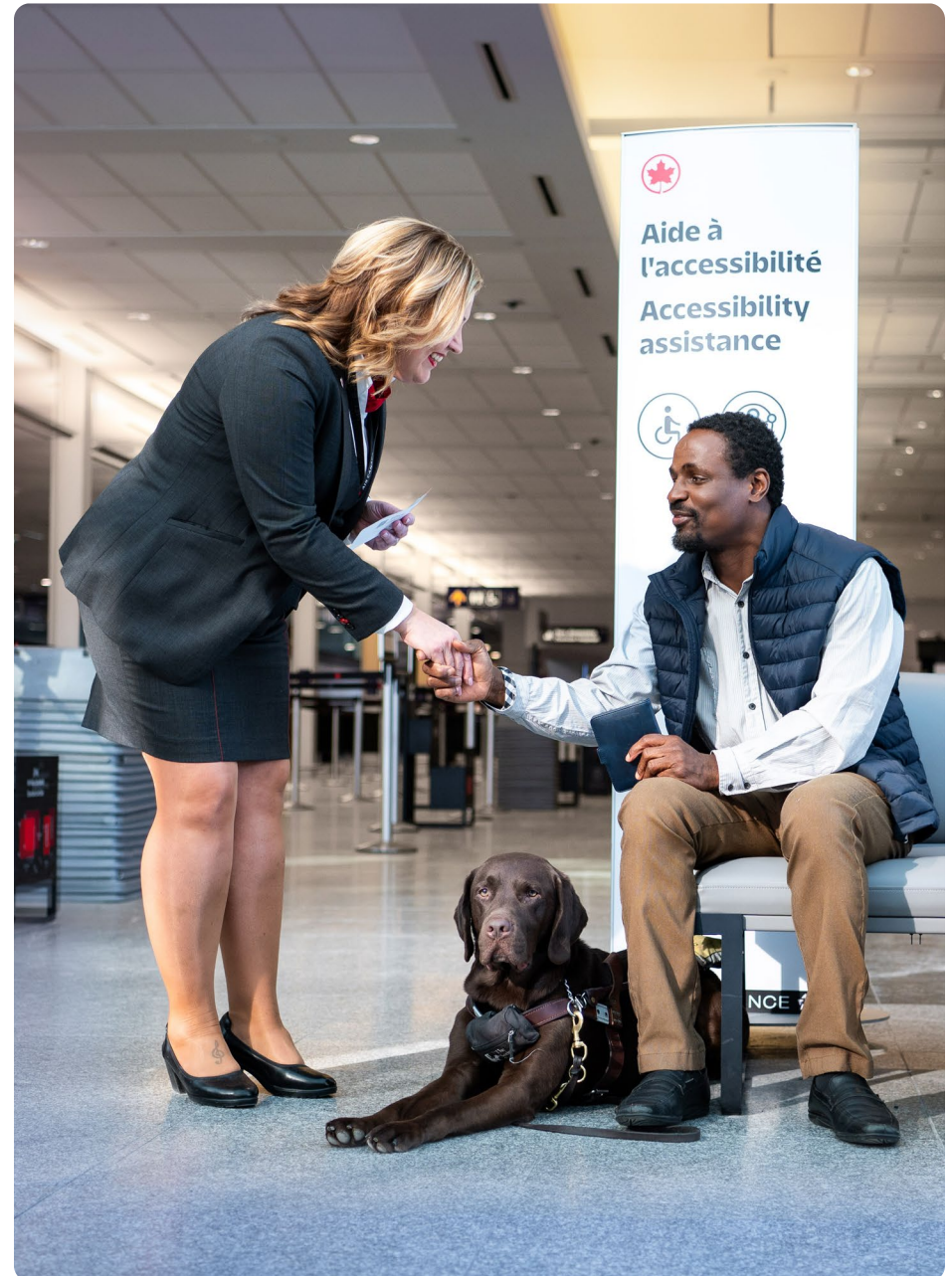
Elevate Our Customers

by supporting the creation of meaningful customer experiences and human connections, such as by leveraging innovations in technology, loyalty program and products.



Lift Each Other Up

by fostering a collaborative workplace that respects all diverse cultures and contributions to society.





Fund our future

Fleet

We continued renewing our fleet in 2025. Certain older and less fuel-efficient aircraft have been permanently retired, and new and more fuel-efficient aircraft have been or will be introduced, which is expected to improve Air Canada's cost structure, notably as it relates to jet fuel, and lower our GHG emissions. As we implement our climate-related ambition, engagement in Air Canada's value chain will evolve:

- In February 2026, Air Canada announced the acquisition of eight Airbus A350-1000 aircraft with deliveries scheduled to begin in 2030.
- In 2024, Air Canada ordered five additional Airbus A220s, bringing firm orders to 65. The agreement with Airbus Canada also provides for purchase options for 10 additional A220-300 aircraft.
- Air Canada announced the acquisition of 30 extra-long-range Airbus A321XLRs in 2022, with deliveries scheduled in the period 2026–29. Our first A321XLR lifted off for its inaugural flight in Hamburg on Feb. 27, 2026.
- Air Canada acquired 40 Boeing 737 MAX 8 aircraft in its fleet, all of which were delivered, and it has entered into lease agreement for 12 additional Boeing MAX 8 aircraft, with deliveries expected to be completed in 2026. Purchase options for 10 additional Boeing 737 MAX are also available.
- Air Canada plans to acquire 14 Boeing 787-10 aircraft, of which 10 are scheduled to be delivered by 2028 and the remaining four by 2030. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.
- In 2022, Air Canada entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. The purchase remains subject to conditions including in relation to the design and specifications of the aircraft. These aircraft would not be expected to start entry into service before at least 2029.



A350-1000



Boeing 737 MAX 8



A321XLR

Technology

We announced our most comprehensive cabin renewal program yet, spanning Air Canada mainline, Air Canada Rouge and Air Canada Express. The multi-year investment reimagines the onboard experience with new interiors, next-generation technology, and thoughtful details inspired by customer and co-worker feedback. Specifically for Rouge, we announced in November 2025 that all Boeing 737 MAX 8 currently part of our mainline fleet will transition to Air Canada Rouge through 2026.



Reach new frontiers

Expanded network

In 2025, Air Canada operated over 1,000 average daily flights to more than 190 direct destinations on six continents, carrying over 45.3 million passengers. Our total operated capacity, measured in available seat miles, increased by 0.8 per cent from 2024. With 105.17 billion available seat miles in 2025, this remained below 2019 levels (112.81 billion ASMs).

North America

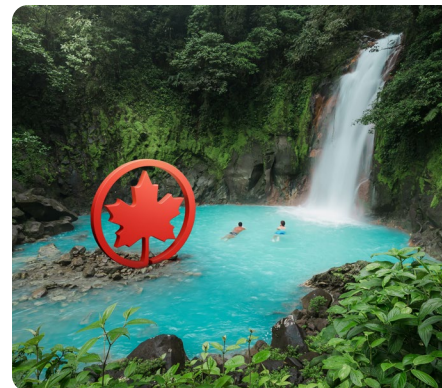
Within Canada, we launched service from both Fredericton and Moncton to Ottawa and non-stop flights from Vancouver to Fort McMurray.

Latin America and Caribbean

We added new routes to Central America and Mexico including Montréal-Belize, Toronto-Puerto Escondido and Vancouver-Huataco. We expanded our presence in Latin America and added Rio de Janeiro, Cartagena, Guatemala City and Guadalajara to our global network. We also increased service to Santiago with three-times-weekly seasonal service from Montréal, creating an important new link between Canada and Chile and supporting connections across our global network. We resumed service to Lima with twice weekly flights from both Montréal and Toronto.

Other additions included Ottawa-Nassau, Halifax-Nassau, Québec City-Fort-de-France, Toronto-Pointe-a-Pitre and extending Toronto-Monterrey into the winter.

Capacity also increased on various routes such as Toronto-Cancun and Montréal-Cancun.



Asia

We continued to leverage Vancouver's geographic position as the closest major North American city to Asia with our new four-times-weekly, year-round Pacific route to Manila, representing the 12th route in our transpacific network.

We resumed service to Beijing from Vancouver, operating four times weekly with plans to ramp up to daily service.

Capacity also increased on Vancouver-Bangkok, remaining the only non-stop carrier connecting North America to the Thai capital.

Europe and United Kingdom

We launched Montréal-Naples, Montréal-Porto and Montréal-Edinburgh and resumed Toronto-Prague and Ottawa-London. In addition to new routes, capacity increased to Athens, Paris and Brussels.



Future

In 2026, we will be operating our first Airbus A321XLR on routes such as Montréal-Toulouse and Montréal-Porto.

The strategic expansion of our international network consists of Montréal-Palma de Mallorca, Montréal-Catania, Montréal-Berlin, Montréal-Nantes, Toronto-Ponta Delgada in the Azores, Halifax-Brussels and the return of Toronto-Budapest.

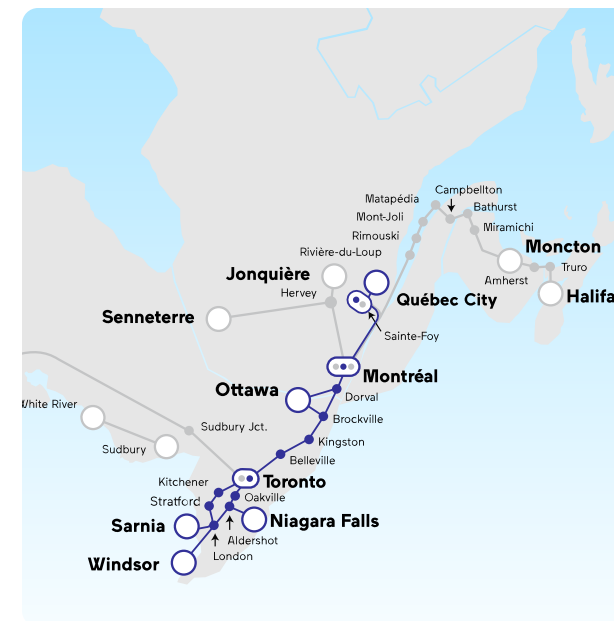
We will also see the return of Toronto-Shanghai and the extension of Vancouver-Bangkok to year-round service. New transborder routes are growing, too, such as San Antonio to Toronto and Cleveland and Columbus to Montréal. Air Canada will be launching new U.S. flights at Billy Bishop Toronto City Airport including four-times-daily to New York's LaGuardia Airport, three-times-daily to Boston Logan International Airport, twice-daily to Chicago O'Hare International Airport and daily to Washington Dulles International Airport, enhancing connectivity, convenience and choice for travellers, complemented with additional capacity to Montréal and Ottawa.

Other additions include Montréal-Guadalajara (year-round) and increased capacity on several routes such as Vancouver-Mexico City.

For the winter, we added Vancouver-Sapporo (the only non-stop flight linking North America to Hokkaido) Montréal-Quito, Toronto-Quito, Calgary-Cancun and Calgary-Puerto Vallarta. Additionally, various routes such as Rio and Lima will resume earlier in the season. Finally, the A321XLRs will be used to extend Toronto-Manchester and Toronto-Copenhagen into year-round service.

Further, we forged a partnership with Pegasus Airlines for expanded options to Türkiye. We also extended our codeshare agreement with Lufthansa to include Lufthansa Express Rail services at Frankfurt Airport, expanding our intramodality in Europe.

In 2025, the Cadence consortium, of which Air Canada is a member, was selected by the Canadian government as the preferred private developer partner for the Alto rail project between Québec City and Toronto.





Air Canada Cargo

- ✔ Revenues surpassed \$1B for the first time since 2022
- ✔ Freighters in service: 6

In 2025, our freighters made their debut at Montréal-Trudeau International Airport, and we introduced our redesigned Cargo eBooking platform, offering customers an optimized booking experience and new tools to self-manage shipments.

Air Canada Vacations

In 2025, Air Canada Vacations marked its 50th anniversary with a series of initiatives that reflected both its long-standing presence in the Canadian travel industry and its continued focus on product development and customer engagement. The year included a range of activities, from offering a commemorative sale with 50,000 vacation packages to hosting a large gathering of travel advisors in Cancun, reinforcing its partnerships within the travel trade.

Air Canada Vacations introduced the Travellers' Top Picks Awards, an initiative designed to better understand traveller preferences. More than 100,000 Canadians participated in identifying favoured international destinations, with Bali, Santorini, Singapore and Rome emerging among the top selections.

Additionally, Aeroplan Members gained expanded points redemption for over 100 cruise itineraries and vacation packages, broadening the range of accessible travel options. Together, these developments highlight Air Canada Vacations' ongoing efforts to enhance its offerings and support Canadians in planning meaningful leisure travel experiences.

Aeroplan

Air Canada's award-winning, premier travel loyalty program enables members to accumulate points through travel on Air Canada as well as through the purchase of products and services from participating partners and suppliers. Members can redeem Aeroplan points for various travel, merchandise, gift cards and other rewards, provided directly by participating partners or made available through Aeroplan's suppliers. It recognizes Aeroplan Members with a range of priority travel services and membership benefits. In 2025, Aeroplan:

- ✔ Surpassed 10M members.
- ✔ Announced new partnerships with Air Baltic, Bearskin Airlines, Harbour Air, Helijet International, Chexy and DINR.
- ✔ Offered fast, free Wi-Fi for Aeroplan Members sponsored by Bell on Air Canada, Air Canada Rouge and Air Canada Express flights in North America, Mexico and the Caribbean.
- ✔ Redefined how members earn Aeroplan points and achieve Aeroplan Elite Status through dollars spent versus distance flown.
- ✔ Announced members can redeem points for cruise packages with Air Canada Vacations.



Upholding service excellence and refined product offerings

Through advancements in technology, elevated employee training and strengthened customer engagement initiatives, we sought to elevate both the customer experience and operational reliability. In 2025, Air Canada:

- ✔ Announced the addition of Michelin-starred Chef Masaki Hashimoto to our culinary panel.
- ✔ Introduced our newest Air Canada Café locations at Montréal-Trudeau International Airport and Vancouver International Airport, offering a seamless, premium grab-and-go experience for eligible domestic travellers.
- ✔ Became the first carrier to offer Wi-Fi on flights to and from Billy Bishop.
- ✔ Unveiled Top 10 Best New Restaurants in Canada, spotlighting fresh and innovative culinary talent.
- ✔ Began offering complimentary beer, non-alcoholic beer and wine and exclusive Canadian-made snacks for customers on all flights.
- ✔ Upgraded the flight status feature on the Air Canada app and aircanada.com to give customers more updates as they track day-of travel activities in real time.
- ✔ Launched our bag tracking feature at select international locations and introduced Bag 2 Customer, a new scoring metric that uses customer satisfaction score feedback and historical delivery data to track how quickly bags reach our customers after landing.
- ✔ Updated Air Canada mobile app with:
 - Enhanced Trips tab and the ability to validate travel documents.
 - Expanded Bravo, a program that makes it even easier for customers to celebrate outstanding service from Cabin Crew, Flight Crew, Customer Support and Care (Contact Centres), Airports and others.
 - Expanded e-gates and biometric boarding at Vancouver airport for transborder flights.
- ✔ Launched [Flight Disruption Guide](#) for customers.
- ✔ Tested a different approach to distributing Skyriders kits by placing them at select airport check-in counters instead of on board.
- ✔ Enhanced our Care & Class customer service program to keep journeys moving smoothly, strengthen service recovery and create memorable moments.



Privacy, data protection and trust

Air Canada is committed to responsible data handling practices, transparency and the protection of the personal information entrusted to us. For a business of our scale and complexity, safeguarding privacy and information security requires continuous diligence, ongoing care and attention as we operate in an environment where data protection requirements continue to evolve across jurisdictions.

Air Canada maintains clear privacy policies describing how personal information is collected, used, disclosed and retained, as well as the rights individuals have related to their information. These policies are supported by enterprise-wide processes designed to ensure responsible data handling across all business functions. Our Privacy Office oversees privacy governance, provides enterprise guidance and manages compliance against applicable privacy and data protection laws.

Artificial intelligence (AI) continues to be adopted in various business functions, and we are ensuring that privacy considerations are embedded in all AI activities. This reinforces the importance of strong privacy governance, more specifically, where AI uses personal information to support data-driven inferences, predictions or automated decisions.

Our cybersecurity efforts are designed to stay ahead of growing and increasingly sophisticated threats, including those posed by hackers, organized criminal groups and state-sponsored actors. Using best practices and mature standards, we integrate cybersecurity requirements into technology projects to help ensure a stable and secure baseline of systems, processes and training. These requirements include all dimensions of cybersecurity resilience including the ability to identify, protect, detect, respond and recover. We are also seeking to ensure that suppliers and other third parties maintain effective cybersecurity and privacy controls aligned with our policies and standards, including where third parties provide or support AI-enabled solutions.



Lift each other up

Safety First, Always

In everything we do, we dedicate ourselves to Safety First, Always, our overarching priority for ourselves, our customers and our industry. Safety management is a critical responsibility that informs virtually every operational decision at Air Canada.

We support and promote effective employee training and continue to advance the development and integration of safety data analytics and artificial intelligence into our Safety Management System. We continually assess and manage safety risks associated with new equipment, new routes and new programs or projects, and we reinforce and promote robust safety reporting practices, ensuring the protection of safety-critical information to guide future decision-making.

Our Occupational Health and Safety program is designed to protect employees from occupational hazards and to minimize risks to their health and well-being. Through this program, we establish clear procedures for identifying and managing hazards and for meeting our obligations under applicable laws and regulations.

We also collaborate with aviation organizations and authorities around the world to promote safety and share best practices.

On Nov. 20, we hosted the Health & Safety Symposium at the Montréal Airport Marriott Hotel, a cornerstone event dedicated to recognizing the incredible contributions of employees serving on Health & Safety committees across Air Canada and to advancing their expertise in creating safer workplaces.



Employee wellness and Unlock the Best in You (UBY)

In 2025, Air Canada strengthened its commitment to employee well-being by advancing a preventive health strategy across the organization and via Unlock the Best in You (UBY), our award-winning well-being program.

More than 59 per cent of employees engaged with the UBY portal.

Highlights of Air Canada's well-being resources and initiatives included:

- ✔ Enhanced UBY platform with dedicated resources to support cancer screening and assistance with finding a family doctor.
- ✔ Wellness events held across Canada offering blood pressure and blood sugar level checks.
- ✔ Applied Suicide Intervention Skills Training.
- ✔ Resilience training for frontline teams.
- ✔ On-site fitness classes.
- ✔ New serenity room at Montréal headquarters.
- ✔ Personalized one-on-one financial counselling.
- ✔ Live webinars on caregiving, understanding grief, diabetes prevention and control, insights on menopause, managing finances and improving sleep habits.
- ✔ Discounts on Pets Plus Us insurance policies for Canada-based employees' dogs and cats.
- ✔ Flu vaccination clinics in Montréal, Saint John, Toronto, Winnipeg and Vancouver.



Representation and inclusion

Air Canada's representative and inclusive workforce is a strength that helps attract and retain the best available global talent. It also enables us to better serve our diverse customer base. We work collaboratively to nurture an inclusive work environment, making our employees feel welcome, providing a safe space for them to express their identities and demonstrating our appreciation for their contributions. Air Canada is proud that customers and stakeholders see themselves and their backgrounds reflected in our employees around the world. We acknowledge that fostering inclusion and belonging is an ongoing journey that demands continual commitment and focus, and we are strengthening our efforts to support a representative, equitable and inclusive environment. This includes embedding these considerations in community outreach initiatives to attract underrepresented talent, supporting equitable professional development practices and building a culture of allyship.

As of Dec. 31, 2025, 85.7 per cent of our Canadian-based employees voluntarily self-identified for representation data regarding four identities designated under applicable Canadian law.

In 2020, we pledged that at least 3.5 per cent of our Canada-based directors and executives would be Black leaders by 2025. We have achieved and maintained that goal since 2023 based on the combined composition of our current 12-member Board and seven-person executive committee and will continue to foster inclusiveness for Black leaders across our Board, senior management and executive levels. We also met IATA's 25by2025 commitment aimed to improve female representation in the industry by 25 per cent, or up to a minimum of 25 per cent, by the end of 2025.

We believe a holistic approach — one that considers representation and inclusion throughout all levels of our workforce — is most aligned with our organization and will help us achieve meaningful results overall. Accordingly, our efforts are centred around the model called CARE (Community outreach, Accountability, Representation and Engagement and belonging). The accountability framework we are implementing will guide us in setting our goals.



This framework includes key components: engaging with leadership and internal reporting of representational data and ensuring all levels of our organization are informed, responsible and empowered to move toward increased representation.

In 2025, Air Canada focused on embedding inclusion throughout the organization:

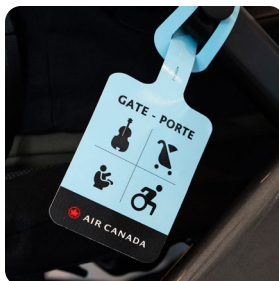
- ✔ Announcing, for the sixth consecutive year, the eight winners of the 2025 Captain Judy Cameron Scholarship.
- ✔ Supporting two all-crewed 2SLGBTQIA+ flights.
- ✔ Highlighting Air Canada's supplier diversity program during Black History Month.
- ✔ Launching a new employee resource group (ERG), Expressions, to promote the French language and francophone culture.
- ✔ Introducing new learning modules and material on allyship.
- ✔ Continuing in-person training on cultural sensitivity in the workplace and providing management training on the duty to accommodate.
- ✔ Launching Guidelines on Inclusive Meetings and Guidelines on Inclusive In-person Event Planning to improve employee accessibility.
- ✔ Incorporating Indigenous awareness training and cultural sensitivity training into annual recurrent training curriculum for customer experience specialists.
- ✔ Participating in the repatriation of Indigenous ancestral items to Canada from the Vatican.
- ✔ Marking Asian Heritage Month and National AccessAbility Week in May by hosting disability advocates.
- ✔ Supporting the route launch of Manila, Philippines, through ERG activities.
- ✔ Launching a bursary for university students with disabilities.
- ✔ Commemorating children lost in residential schools on the National Day for Truth and Reconciliation on Sept. 30 through a cross-country flag-raising campaign.
- ✔ Expanding the DEI Champion program for employees to actively support and promote inclusion through initiatives and activations in the workplace.



Accessibility

Air Canada is committed to being a leader in accessible travel and employment and investing in accessibility. Our multi-year accessibility plan reaffirms our commitment to enhancing accessibility for employees and customers with disabilities. The plan outlines our 2023–26 roadmap to become a more accessible organization and contribute to Canada’s objective to be barrier-free by 2040. We are committed to designing our products, service offerings and employment experience with accessibility at the forefront. This includes continually improving all aspects of employee interactions with customers with disabilities and strengthening our understanding of their experiences throughout the air travel journey. In 2025, Air Canada:

- ✓ Invested more than \$2 million into equipment for our Canadian airports to further our commitment to customer accessibility.
- ✓ Marked Disability Employment Awareness month in October, which celebrates the contributions of people with disabilities in the workplace and promotes inclusion.
- ✓ Highlighted International Day of Persons with Disabilities on Dec. 3 by introducing new guidelines to help employees plan and host more inclusive meetings and events.
- ✓ Became the first airline in Canada to receive approval from Transport Canada to use seatbelt extensions as an alternative to netting in the cabin of our aircraft.
- ✓ Installed mobility aid trays on all Boeing 737 aircraft, allowing mobility aids such as wheelchairs and scooters to be stowed in segregated cargo compartments.
- ✓ Held a discussion on the intersections of disability, culture and inclusion during National Accessibility Week and Asian Heritage Month in May.
- ✓ Released our second accessibility progress report.
- ✓ Marked one year since introducing the Hidden Disabilities Sunflower program.



1.46M accessibility requests received and handled (visible and non-visible disabilities)

>36,396 wheelchairs transported

36 Air Canada Canadian airports with **Eagle Lifts**

7 full-time people working on accessibility, with support of about 39,300 employees, driving accessibility improvements at Air Canada



Official and other languages

Air Canada is proud to be one of the few private-sector companies in Canada to offer services in both official languages — the only airline required to do so. For more than 50 years, we have upheld this commitment in a highly complex industry and on a scale and geographic breadth that is unmatched among other major Canadian companies. Over time, we have developed unique expertise and have been leaders in implementing sustained initiatives to deliver services in both official languages in multiple locations and route combinations, while also promoting the use of both official languages in the workplace.

Our services are offered in a variety of settings but most visibly at the airport and on board our aircraft. In 2025, we carried more than 45.3 million passengers on about over 370,000 flights, split roughly evenly among flights between domestic travel and international routes connecting Canada with the countries we serve. We are one of few airline companies in the world that serve customers in English and in French at this scale, and we are proud to reflect Canada's linguistic identity globally. The diverse linguistic

abilities of our public-facing employees have enabled us to designate 24 route languages beyond our official languages, based on internal criteria including minimum service requirements.

We are dedicated to meeting our linguistic commitments and regularly test the linguistic skills of our more than 15,000 public-facing employees in both official languages and in 24 designated route languages. Employees may also self-report additional languages they speak, and self-assessments are recorded. Based on the testing and self-reported data we have from about 37,500 employees:

- ✔ More than half of our employees including those in public-facing roles can communicate with some level of tested or self-reported proficiency in both official languages.
- ✔ About 40 per cent of our employees speak at least one route language.

>22,400 hours of language training
>12,300 language tests performed
>14M words translated (vs. >7M in 2024, standard work only, excluding specialized)

Both official languages are used throughout our operations in corporate, customer and employee communications and in day-to-day interactions. We are committed to promoting English and French across the country and have policies, programs, procedures and tools to help our employees learn and improve their language skills.

We value the communities where we live and work, and notably Quebec, which is home to our Montréal headquarters. We continue to work with stakeholders to understand how we can meet their expectations while honouring individual rights and our legal obligations. In 2023, we voluntarily registered with the Office québécois de la langue française under the Charter of the French language and have since developed a francization program that was approved by the Office and is being implemented. This reflects our aim to contribute to the protection, promotion and reach of the French language, while complying with the *Official Languages Act*.

Our Official Languages department has responsibility for implementing our Linguistic Action Plan and official languages initiatives and reporting progress regularly to executive management. An Official Languages Committee, consisting of various levels of management and senior management from key functions (operational and corporate), supports the Official Languages department by facilitating the implementation of official languages initiatives throughout our organization. A francization committee also focuses on activities specific to Quebec.

Progress on our official languages and Linguistic Action Plan initiatives are reported quarterly to the Governance and Nominating Committee of the Board.





Air Canada Community Relations

Air Canada's Community Relations and Partnerships team supported more than 330 events and initiatives as well as over 240 organizations in 2025. An investment valued at more than \$4.1 million, including in-kind value, was allocated to Canadian communities to support socio-economic development and to address a wide range of needs across the country.

In 2025, support was directed across a wide range of sectors and community pillars, reflecting Air Canada's commitment to meaningful and inclusive engagement. This included contributions to tourism and aviation initiatives, museum and cultural foundations, organizations supporting military members, veterans and their families, as well as groups dedicated to promoting bilingualism. The team also championed 2SLGBTQIA+ initiatives, along with several other community-based programs that strengthen social, cultural and economic well-being across the country.



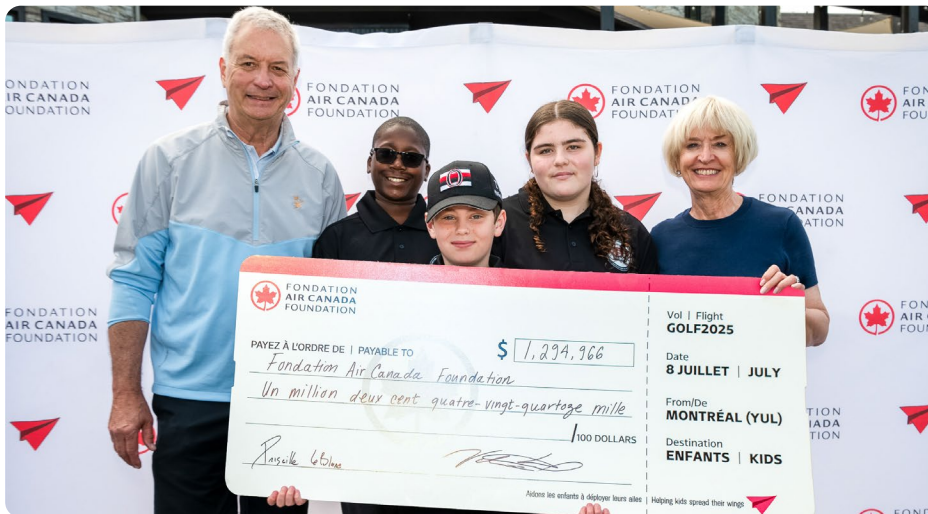
Air Canada Foundation

The Air Canada Foundation provides financial or fundraising support to Canadian-registered charities that seek to improve children's health and well-being. It has raised more than \$20 million since its creation. In 2025, the Foundation:

- ✔ Raised almost \$2.1 million, including a record-breaking amount of \$1.3 million (net) at its 13th annual golf tournament, the Foundation's largest fundraising event.
- ✔ Supported 473 charities across Canada.
- ✔ Donated more than 2,000 airplane tickets.
- ✔ Donated \$1.8 million to communities across Canada maintaining the same level of support as in 2024.
- ✔ Donated over 48,300 kg of food via the Food Rescue program.
- ✔ Collected over \$61,200 via the Every Bit Counts program.

Hospital Transportation Program:

- ✔ 35 million Aeroplan points were donated to pediatric hospitals for the transportation of children.
- ✔ 782 airline tickets were donated to pediatric hospitals for the program.
- ✔ >470 patients accessed medical care through this program on over 605 trips.





Climate-related initiatives

Air Canada's climate-related initiatives are aimed at aligning with the Government of Canada's 2050 commitment of net-zero emissions, the International Air Transport Association (IATA) 2021 resolution for the global air transport industry to achieve net-zero carbon emissions by 2050 and the International Civil Aviation Organization (ICAO) member states' collective long-term global aspirational goal of net-zero carbon emissions by 2050. These ambitions align with the Paris Agreement and, to succeed, they will require the coordinated efforts of the entire aviation industry (e.g., airlines, airports, air navigation service providers, manufacturers) and significant government support.

In March 2021, Air Canada announced its climate-related ambition that sets out mid-term targets in support of its long-term aspiration of net-zero GHG emissions by 2050. Those mid-term targets are:

- **20 per cent GHG net reductions from our air operations** compared to a 2019 baseline by 2030.
- **30 per cent GHG net reductions from our ground operations** compared to a 2019 baseline by 2030.
- **\$50 million research and development investment fund** for low-carbon technologies to accelerate decarbonization such as sustainable aviation fuels (SAF), new aircraft technologies or carbon reduction and removal technologies.

Our ambitions, particularly for our net reduction target from our air operations, are dependent on low-carbon technologies and the availability of sufficient SAF. Air Canada cannot achieve its ambitions alone; governments play an essential role in these efforts, and each stakeholder across the climate action chain must play its part.

The aviation industry includes many participants, many of which can play a meaningful role in reducing GHG emissions. Air Canada is accordingly engaged with other stakeholders in the air transport system to advance and explore opportunities. For more information, see [Air Canada's 2024 Corporate sustainability report, Citizens of the World.](#)



Air Canada's climate-related initiatives build on existing value streams. Four key carbon reduction pillars were identified to be central to the advancement of our climate objectives and position us to leverage emerging climate-related opportunities: Fleet and operations; Innovation; SAF and renewable energy; and Carbon reductions and removals.



NET-ZERO GHG EMISSIONS BY 2050 | MID-TERM TARGETS ARE:

20%

GHG net reductions from our air operations

30%

GHG net reductions from our ground operations

\$50M

research and development investment fund

OUR FOUR CARBON REDUCTION PILLARS:

1 Fleet and operations

We will continue renewing and simplifying our fleet by adding more fuel-efficient aircraft through our fleet renewal program and integrating climate-related factors in route and fleet planning. On the ground, we expect to continue phasing out carbon-intensive ground equipment, advancing electric vehicles use and pursuing other electrification opportunities.

By optimizing our operations and adopting next generation aircraft, we continuously work toward improving the carbon intensity of the flights carrying the people and freight we connect around the world.

2 Innovation

Air Canada actively evaluates the viability, safety and performance of new electric, hydrogen or hybrid propulsion technologies and explores other innovative opportunities for our operations. In 2022, we agreed to purchase 30 ES-30 hybrid-electric aircraft under development by Heart Aerospace in Sweden, subject to conditions, including in relation to the design and specifications of the aircraft, which would not be expected to start entry into service before at least 2029.

3 SAF and renewable energy

SAF, an industry term for alternative (non-fossil derived) aviation fuel, is a critical component for reducing our GHG emissions from air operations. Air Canada currently sources SAF and other low carbon aviation fuel (LCAF) through various suppliers around the world. We firmly believe a policy mechanism that provides sufficient certainty and incentives is required to catalyze domestic SAF production. Existing measures focus on managing Canada's low-carbon fuels incentive gap with other jurisdictions, but SAF requires large, long-dated capital investments supported by stable Canadian policy frameworks to be produced at scale.

In 2025, Air Canada achieved its target to procure a minimum of one per cent of its jet fuel use in SAF.

Air Canada received roughly 78 million litres of SAF in 2025 compared to about 46 million litres of SAF in 2024. We are actively including renewable energy sources like renewable natural gas (RNG) and renewable electricity certificates (RECs) and are evaluating energy transition measures for our facility operations.

RNG was about 12.5 per cent of overall volumes in our Montréal-owned facilities and 17 per cent of overall volumes for owned facilities in Vancouver in 2025. Since 2023, we have continued to purchase RECs for all electricity consumption across Canada (except Quebec, B.C. and Manitoba, as their respective electricity carbon intensity is already low).

4 Carbon reductions and removals

We are exploring carbon negative emission technologies and other direct emission reduction and removal strategies in addition to further developing our regulatory carbon offset credit requirements.





Climate-related customer offerings

Leave Less Travel program (provided by Choose):

While on the Air Canada booking websites, customers can voluntarily support climate initiatives by purchasing carbon offset credits together with Scope 3 environmental attributes associated with SAF. The total cost of this combined purchase is calculated on the basis of an estimate of the GHG emissions of their flight(s).

Leave Less Travel program:

Corporate customers and cargo freight forwarders have the opportunity to purchase Scope 3 environmental attributes associated with SAF, carbon offset credits or a combination of both related to their own business air travel or cargo shipments on Air Canada.

Learn more - [Leave Less - Travel Program](#)

Aeroplan redemptions:

When individuals book a flight using Aeroplan points or a combination of points and cash, Air Canada will offset its estimated Scope 1 GHG emissions by purchasing carbon offset credits based on the GHG emissions estimated to be associated with their flight. Specifically, the carbon offset credits retired will be an amount equivalent to the estimated GHG emissions associated with the portion of their itinerary that is operated by Air Canada, once the flight is completed.

In 2025, Air Canada purchased 849,744 tCO₂e from 11 carbon offset projects around the world.

Ground operations

In 2025, the ground support equipment (GSE) of our operations in Québec City became the first station in Canada to achieve 100 per cent electrification in all main categories. The deployment of new-generation electric ground support equipment (eGSE) and the retirement of older units began in 2019. We also added 98 new e-GSE units to our fleet across Canada that included 20 tow barless pushback units across our three main stations Montréal (seven), Toronto (10) and Vancouver (three).







We continue advancing our commitments on the ground alongside the significant investments we are making in our air operations. Across the network, we reached 40 per cent electrification of our motorized fleet, a milestone that reflects our commitment to decarbonizing our ground operations.











Board of Directors and Committees

Air Canada is governed by a 12-member Board of Directors. The Air Canada Board of Directors has four standing committees, all of which are composed of independent directors. The roles and responsibilities of each committee are set out in formal written charters. These charters are reviewed annually to ensure that they reflect best practices as well as applicable regulatory requirements.

	Audit, Finance and Risk Committee	Governance and Nominating Committee	Human Resources, Compensation and Pension Committee	Safety, Health, Environment and Security
 Vagn Sørensen Chair of the Board, Air Canada Ex officio member of all committees Copenhagen, Denmark				
 Amee Chande Corporate Director British Columbia, Canada	Member			Member
 Christie J.B. Clark Corporate Director Ontario, Canada	Chair	Member		
 Gary A. Doer¹ Corporate Director Manitoba, Canada			Member	Member
 Rob Fyfe Corporate Director North Island, New Zealand			Member	Chair
 Michael M. Green Chief Executive Officer and Managing Director, Tenex Capital Management Florida, U.S.			Member	Member

	Audit, Finance and Risk Committee	Governance and Nominating Committee	Human Resources, Compensation and Pension Committee	Safety, Health, Environment and Security
 Jean Marc Huot Partner, Stikeman Elliott LLP Quebec, Canada		Chair		Member
 Claudette McGowan Chief Executive Officer, Protexxa Inc. Ontario, Canada	Member		Member	
 Madeleine Paquin Corporate Director Quebec, Canada		Member		Member
 Michael Rousseau President and Chief Executive Officer, Air Canada Ex officio member of all committees Quebec, Canada				
 Kathleen Taylor Corporate Director Ontario, Canada	Member	Member	Chair	
 Annette Verschuren Chair and Chief Executive Officer, NRStor Inc. Ontario, Canada	Member	Member		

¹ Mr. Doer is not standing for re-election at the 2026 annual meeting of shareholders to be held on May 1, 2026.



Executive officers



Michael Rousseau

President and Chief Executive Officer



Marc Barbeau

Executive Vice President, Chief Legal Officer and Corporate Secretary



John Di Bert

Executive Vice President and Chief Financial Officer



Mark Galardo

Executive Vice President, Chief Commercial Officer and President, Cargo



Craig Landry

Executive Vice President, Chief Innovation Officer and President of Aeroplan



Arielle Meloul-Wechsler

Executive Vice President, Chief Human Resources Officer and Public Affairs



Mark Nasr

Executive Vice President and Chief Operations Officer



Kevin O'Connor

Senior Vice President, Global Airports and Operations Control



Murray Strom

Senior Vice President, Flight Operations and Maintenance



Investor and Shareholder information

TSX price range and trading volume of Air Canada variable voting shares and voting shares (AC)

	LOW	HIGH	VOLUME
First quarter	\$13.70	\$22.85	209,741,517
Second quarter	\$12.69	\$21.24	229,892,306
Third quarter	\$17.48	\$23.72	186,051,239
Fourth quarter	\$17.425	\$20.07	145,523,647
Full year	\$12.69	\$23.72	771,208,709

Restrictions on voting securities

The *Canada Transportation Act* limits the permitted level of foreign ownership of Canadian air carriers to 49 per cent and caps the voting rights of any single non-Canadian and of the aggregate of non-Canadian air carriers to 25 per cent.

For further information, see section 10 of Air Canada's 2025 Annual Information Form dated March 31, 2026.

investors.investisseurs@aircanada.ca

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Air Canada is listed on the Toronto Stock Exchange and governed by its rules.

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Email: shareholderinquiries@tmx.com

Internet: tsxtrust.com



2025 | Management's Discussion and Analysis of Results of Operations and Financial Condition

February 12, 2026



1. Selected financial metrics and statistics

The financial and operating highlights for Air Canada for the periods indicated are as follows:

(Canadian dollars in millions, except per share data or where indicated)

Financial Performance Metrics	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Operating revenues	5,770	5,404	366	22,372	22,255	117
Operating income (loss)	324	(254)	578	918	1,263	(345)
Operating margin ⁽¹⁾ (%)	5.6	(4.7)	10.3 pp ⁽⁸⁾	4.1	5.7	(1.6) pp
Adjusted EBITDA ⁽²⁾	867	696	171	3,124	3,586	(462)
Adjusted EBITDA margin ⁽²⁾ (%)	15.0	12.9	2.1 pp	14.0	16.1	(2.1) pp
Income (loss) before income taxes	342	(721)	1,063	789	515	274
Net income (loss)	296	(644)	940	644	1,720	(1,076)
Adjusted pre-tax income ⁽²⁾	244	135	109	658	1,397	(739)
Adjusted net income ⁽²⁾	191	93	98	471	1,335	(864)
Total liquidity ⁽³⁾	7,500	9,154	(1,654)	7,500	9,154	(1,654)
Net cash flows from operating activities	423	677	(254)	3,657	3,930	(273)
Free cash flow ⁽²⁾	(478)	(495)	17	747	1,294	(547)
Net debt ⁽²⁾	5,411	4,918	493	5,411	4,918	493
Long-term debt and lease liabilities	11,576	12,670	(1,094)	11,576	12,670	(1,094)
Diluted earnings (loss) per share	1.00	(1.81)	2.81	1.86	4.72	(2.86)
Adjusted earnings per share – diluted ⁽²⁾	0.65	0.25	0.40	1.47	3.55	(2.08)
Operating Statistics⁽⁴⁾	2025	2024	Change %	2025	2024	Change %
Revenue passenger miles (RPMs) (millions)	21,879	20,573	6.3	89,021	88,643	0.4
Available seat miles (ASMs) (millions)	25,792	24,949	3.4	105,174	104,381	0.8
Passenger load factor %	84.8%	82.5%	2.4 pp	84.6%	84.9%	(0.3) pp
Passenger revenue per RPM (Yield) (cents)	22.8	23.0	(0.6)	22.0	22.3	(1.2)
Passenger revenue per ASM (PRASM) (cents)	19.4	18.9	2.3	18.6	18.9	(1.5)
Operating revenue per ASM (TRASM) (cents)	22.4	21.7	3.3	21.3	21.3	(0.2)
Operating expense per ASM (CASM) (cents)	21.1	22.7	(6.9)	20.4	20.1	1.4
Adjusted CASM (cents) ⁽²⁾	15.3	15.1	1.9	14.7	13.8	6.7
Average number of full-time-equivalent (FTE) employees (thousands) ⁽⁵⁾	36.4	37.1	(1.9)	37.0	37.1	(0.4)
Aircraft in operating fleet at period-end	353	354	(0.3)	353	354	(0.3)
Seats dispatched (thousands)	13,675	13,796	(0.9)	56,587	56,745	(0.3)
Aircraft frequencies (thousands)	93.0	94.5	(1.6)	385.7	387.9	(0.6)
Average stage length (miles) ⁽⁶⁾	1,886	1,808	4.3	1,859	1,839	1.0
Fuel cost per litre (cents)	91.7	94.6	(3.1)	91.4	100.6	(9.1)
Fuel litres (thousands)	1,244,669	1,225,281	1.6	5,064,561	5,082,636	(0.4)
Revenue passengers carried (thousands) ⁽⁷⁾	11,195	10,929	2.4	45,297	45,886	(1.3)

- (1) Operating margin is a supplementary financial measure and is defined as operating income (loss) as a percentage of operating revenues.
- (2) Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and impairment), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.
- (3) Total liquidity refers to the sum of cash, cash equivalents, short and long-term investments, and the amounts available under Air Canada's credit facilities. Total liquidity, as at December 31, 2025, of \$7,500 million, consisted of \$6,165 million in cash, cash equivalents, and short- and long-term investments, and \$1,335 million available under undrawn credit facilities. As at December 31, 2024, total liquidity of \$9,154 million consisted of \$7,752 million in cash, cash equivalents, short- and long-term investments and \$1,402 million available under undrawn credit facilities. These amounts also include funds (\$333 million as at December 31, 2025 and \$346 million as at December 31, 2024) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.
- (4) Except for the reference to average number of full-time equivalent (FTE) employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.
- (5) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.
- (6) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.
- (7) Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.
- (8) "pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.



2. Introduction and key assumptions

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), Air Canada refers, as the context may require, to Air Canada alone or Air Canada and one or more of its subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge), or to one or more of such subsidiaries. This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the fourth quarter and full year 2025.

This MD&A should be read in conjunction with Air Canada's 2025 annual audited consolidated financial statements and notes dated February 12, 2026. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IFRS Accounting Standards), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 21 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of February 12, 2026.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk Factors" of this MD&A. Air Canada issued a news release dated February 12, 2026 reporting on its results for the fourth quarter and full year 2025. This news release is available on Air Canada's website at aircanada.com and on SEDAR+ website at www.sedarplus.ca. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at www.sedarplus.ca.

Caution Regarding Forward-Looking Information

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions, Air Canada's multi-year fleet modernization program and planned fleet changes, capital allocation priorities, expectations to meet liquidity needs over the next 12 months, and intentions to refinance outstanding senior indebtedness in 2026. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business of Air Canada. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including those discussed below.

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic conditions, statements or actions by governments and uncertainty relating to the imposition of (or threats to impose) tariffs on Canadian exports or imports and

their resulting impacts on the Canadian, North American and global economies and travel demand, geopolitical and security conditions including in relation to the military conflicts in the Middle East and between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, Air Canada's dependence on technology, cybersecurity risks, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), employee and labour relations and costs, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay or refinance its indebtedness and maintain or increase liquidity on favourable terms and on a timely basis, Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, epidemic diseases, changes in laws, regulatory developments or proceedings, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations as well as the factors identified in Air Canada's public disclosure file available at www.sedarplus.ca and, in particular, those identified in section 18 "Risk Factors" of this MD&A.



The forward-looking statements contained or incorporated by reference in this MD&A represent Air Canada's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, except as required under applicable securities regulations.

Key Assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2026. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.36 per U.S. dollar for the full year 2026 and that the price of jet fuel will average C\$0.90 per litre for the full year 2026.

Intellectual Property

Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this MD&A may be listed without the ©, ® and TM symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights. This MD&A may also include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

Incorporation of Other Information

No information contained on or accessed via Air Canada's websites (or any other website referred to in this MD&A), and no document referred to in this MD&A, is incorporated into or forms part of this MD&A, except if it is expressly stated in this MD&A to be incorporated into this MD&A.





3. About Air Canada

Air Canada is the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market, and in the international market to and from Canada. Its mission is connecting Canada and the world.

Air Canada enhances its domestic and transborder network through commercial agreements with regional carriers, including capacity purchase agreements (CPA) with Jazz Aviation LP (Jazz), a wholly owned subsidiary of Chorus Aviation Inc. and a commercial agreement with PAL Airlines Ltd. (PAL), a wholly owned subsidiary of Exchange Income Corporation, operating flights on behalf of Air Canada under the Air Canada Express brand. Regional flying forms an integral part of the airline's international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes.

Air Canada is a founding member of the Star Alliance® network. Through the member airline network, Air Canada offers its customers access to a wide global network, as well as reciprocal participation in frequent flyer programs, a seamless travel experience and improved customer service, including the use of airport lounges and other common airport facilities.

Air Canada's Aeroplan program is Canada's premier travel loyalty program. The Aeroplan program allows individuals to enrol as members and accumulate Aeroplan points through travel on Air Canada and select partners, as well as through the purchase of products and services from participating partners and suppliers. Members can redeem Aeroplan points for a variety of travel, merchandise, gift cards and other rewards provided directly by participating partners or made available through Aeroplan's suppliers. Aeroplan Elite Status recognizes Air Canada's frequent flyers, as well as Aeroplan's most engaged members, with a range of priority travel services and membership benefits.





Air Canada Cargo, a division of Air Canada, is a global cargo service provider, offering cargo services on passenger flights and on dedicated Boeing 767 freighter aircraft.

Air Canada Vacations is a leading Canadian tour operator, developing, marketing and distributing vacation travel packages, including flight and hotel packages, car rentals and travel-related activities in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, Asia, Oceania, Middle East), and the leisure travel market to destinations within Canada and offering flight and cruise packages for worldwide destinations including North America, Europe, the Caribbean, Japan and Dubai.

Air Canada Rouge is Air Canada's leisure carrier, primarily operating short- and medium-haul flights to leisure destinations in Latin America, the Caribbean, the U.S., and Canada. Air Canada Rouge leverages the strengths of Air Canada, including its extensive network with enhanced connection options, operational expertise and frequent flyer program, and also gives Air Canada the ability to compete against low-cost carriers and ultra-low-cost carriers.





4. Overview

In 2025, Air Canada delivered resilient financial and operational performance despite a challenging external environment. The year was characterized by macroeconomic uncertainty, foreign exchange volatility, evolving geopolitical dynamics, and the August labour disruption, which resulted in the cancellation of more than 3,200 flights and an approximate \$375 million financial impact. At the same time, Air Canada navigated meaningful shifts in global and regional demand patterns, including softer Canada–U.S. traffic and stronger long-haul and leisure-oriented international traffic.

Financial Performance and Demand Trends

Total operating revenues for the year reflected both the impact of the labour disruption and the continued momentum of diversified revenue streams. Passenger revenues declined year over year, driven primarily by an approximate \$430 million impact from the August labour disruption in addition to lower transborder revenues due to softer demand in the Canada–U.S. market. International markets, particularly the Atlantic and Latin and Central America, remained strong contributors, benefiting from robust leisure and visiting-friends-and-relatives demand and effective deployment of long-haul capacity. Cargo and other revenues grew year over year, supported by higher Pacific volumes and increased ground package revenues at Air Canada Vacations.

Air Canada continued to exercise active cost management while navigating inflationary pressures, primarily in labour, maintenance and airport infrastructure costs. Adjusted CASM increased year over year, reflecting the combined impact of inflation in its cost structure and the incremental costs and reduced capacity resulting from the August labour disruption.

The total financial impact of the labour disruption was estimated at approximately \$375 million on operating income and adjusted EBITDA, consisting of:

- \$430 million in revenue impact, including refunds, compensation and lower bookings
- \$145 million in cost avoidance, largely from reduced fuel consumption
- \$90 million in incremental customer and labour related costs

Strategic Progress and Capital Allocation

Air Canada continued advancing its multi-year fleet modernization program. Deliveries of additional Airbus A220 aircraft enhanced domestic and transborder connectivity, while the airline prepared for the introduction of the Airbus A321XLR and Boeing 787-10 in 2026, both of which will support long-haul economics, hub connectivity and premium-focused market positioning.

Air Canada ended the year with strong liquidity of \$7,500 million and maintained balanced capital allocation priorities. It continued to prioritize the strength of its balance sheet, managing net debt prudently while also returning capital to shareholders via its substantial issuer bid and active normal course issuer bid.

The following is an overview of Air Canada's results of operations and financial position for the fourth quarter and full year 2025 compared to the same periods in 2024. Refer to sections 5 "Results of Operations 2025 versus 2024" and 6 "Results of Operations Q4 2025 versus Q4 2024" for additional information on factors impacting the year-over-year performance.

Fourth Quarter 2025 Financial Summary

- Operating revenues increased 7% to \$5,770 million, driven by growth in passenger revenues and other revenues.
- Operating expenses declined 4% to \$5,446 million primarily due to the impact of \$490 million non-cash pension past-service cost recorded in the prior year in relation to the Air Line Pilots Association (ALPA) agreement.
- Operating income improved by \$578 million year over year, reaching \$324 million, compared to an operating loss of \$254 million in Q4 2024, largely due to higher revenues year over year and the \$490 million non-cash pension past-service cost recorded in the prior year in relation to the Air Line Pilots Association (ALPA) agreement. Operating margin of 5.6%, improved 10.3 percentage points.
- Adjusted EBITDA increased to \$867 million from \$696 million, with margin expanding 2.1 percentage points to 15.0%, reflecting a strong revenue performance and disciplined cost control.
- Net income was \$296 million, compared to a net loss of \$644 million in Q4 2024. Diluted earnings per share of \$1.00 versus a diluted loss per share of \$1.81 in the fourth quarter of 2024.
- Adjusted net income rose to \$191 million from \$93 million, driven by higher operating income and improved non-operating results. Adjusted EPS diluted increased to \$0.65 from \$0.25, also reflecting a lower share count.
- Adjusted CASM increased 2% year over year due to higher costs in various categories. Higher capacity year over year partially offset the increase.
- Net cash flows from operating activities of \$423 million and free cash flow of negative \$478 million, compared to \$677 million and negative \$495 million, respectively, in Q4 2024.



Full Year 2025 Financial Summary

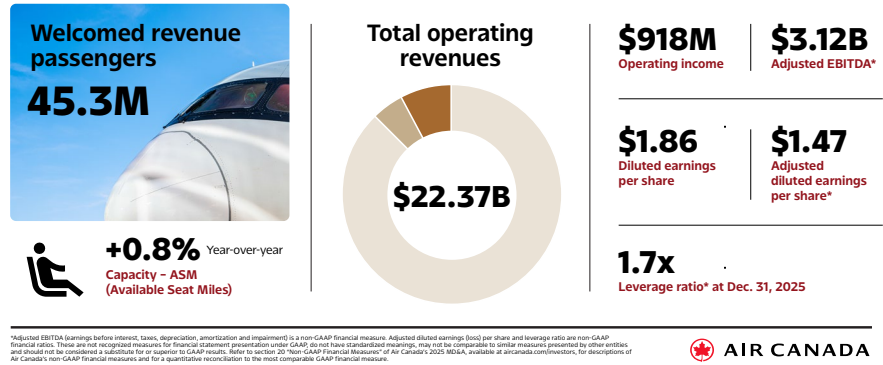
- Operating revenues increased 1% to \$22,372 million, with cargo and other revenues growing year over year, partially offset by a \$156 million year over year decline in passenger revenues due to the impact of the August labour disruption and softer Canada–U.S. demand despite a strong performance in the Atlantic, Latin America and the Caribbean.
- Operating expenses increased 2% to \$21,454 million due to increases in most line items and incremental costs related to the August labour disruption. The increase was partially offset by lower fuel year-over-year.
- Operating income was \$918 million, down from \$1,263 million in 2024, reflecting higher operating expenses and the financial impact of the August labour disruption. Operating margin of 4.1% declined 1.6 percentage points.
- Adjusted EBITDA decreased to \$3,124 million from \$3,586 million, with margin declining to 14.0% from 16.1%, reflecting higher costs and the financial impact of the August labour disruption.
- Net income was \$644 million, compared to \$1,720 million in 2024, due primarily to the \$1,154 million deferred tax asset recognition recorded in 2024. Diluted EPS of \$1.86 compared to \$4.72 in 2024.
- Adjusted net income was \$471 million, down from \$1,335 million. Adjusted diluted EPS of \$1.47 compared to \$3.55 in 2024.
- Adjusted CASM increased 6.7%, reflecting higher costs in various categories and the impact of the August labour disruption resulting in incremental costs and reduced capacity.
- Net cash flows from operating activities were \$3,647 million, down from \$3,930 million in 2024, while free cash flow declined to \$747 million from \$1,294 million, reflecting lower earnings and higher capital expenditures.
- Total liquidity ended the year at \$7,500 million compared to \$9,154 million a year earlier, reflecting the execution of the share buyback program, debt repayments and capital expenditures.
- Long-term debt and lease liabilities of \$11,576 million decreased \$1,094 million.
- Net debt increased to \$5,411 million from \$4,918 million, primarily due to reduced cash as a result of share repurchases and capital expenditures. These outflows more than offset the repayments of debt and lease liabilities in 2025.
- Net debt-to-adjusted EBITDA ratio was 1.7 as at December 31, 2025 compared to 1.4 as at December 31, 2024.



Full year 2025

Highlights of our financial results

See our full financial results at Air Canada's Investor Relations website: aircanada.com/investors



5. Results of operations – 2025 versus 2024

The table and discussion below provide and compare Air Canada's results for the periods indicated.

	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
<small>(Canadian dollars in millions, except where indicated)</small>				
Operating revenues				
Passenger	\$ 19,604	\$ 19,760	(156)	(1)
Cargo	1,033	991	42	4
Other	1,735	1,504	231	15
Total operating revenues	22,372	22,255	117	1
Operating expenses				
Aircraft fuel	4,731	5,118	(387)	(8)
Wages, salaries and benefits	5,005	4,880	125	3
Depreciation, amortization and impairment	2,012	1,799	213	12
Airport and navigation fees	1,587	1,487	100	7
Aircraft maintenance	1,343	1,237	106	9
Sales and distribution costs	1,075	1,085	(10)	(1)
Capacity purchase fees	863	860	3	0
Ground package costs	872	782	90	12
Communications and information technology	692	649	43	7
Catering and onboard services	673	637	36	6
Other	2,601	2,458	143	6
Total operating expenses	21,454	20,992	462	2
Operating income	918	1,263	(345)	
Non-operating income (expense)				
Foreign exchange gain (loss)	245	(400)	645	
Interest income	222	431	(209)	
Interest expense	(663)	(763)	100	
Interest capitalized	57	32	25	
Financial instruments recorded at fair value	82	28	54	
Loss on debt settlements and modifications	-	(8)	8	
Other	(72)	(68)	(4)	
Total non-operating expense	(129)	(748)	619	
Income before income taxes	789	515	274	
Income tax recovery	(145)	1,205	(1,350)	
Net income	\$ 644	\$ 1,720	\$ (1,076)	
Basic earnings per share	\$ 2.07	\$ 4.81	\$ (2.74)	
Diluted earnings per share	\$ 1.86	\$ 4.72	\$ (2.86)	
Adjusted EBITDA ⁽²⁾	\$ 3,124	\$ 3,586	\$ (462)	
Adjusted pre-tax income ⁽²⁾	\$ 658	\$ 1,397	\$ (739)	
Adjusted net income ⁽²⁾	\$ 471	\$ 1,335	\$ (864)	
Adjusted earnings per share – diluted ⁽²⁾	\$ 1.47	\$ 3.55	\$ (2.08)	

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

(2) Adjusted EBITDA, adjusted pre-tax income (loss), adjusted net income (loss), and adjusted earnings (loss) per share are non-GAAP financial measures or non-GAAP financial ratios. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for additional information.



System Passenger Revenues

In 2025, passenger revenues declined \$156 million year over year largely reflecting the combination of the impact of the August labour disruption and reduced traffic in the Transborder market starting from the second quarter of 2025. This was partially offset by strong demand and performance in international markets, primarily Atlantic and Central- and South America.

Premium cabin demand remained solid, with premium revenues continuing to outpace system growth and representing roughly 30% of total passenger revenues, a one-percentage-point improvement year over year. Air Canada also continued executing on its sixth freedom strategy, with connecting traffic posting strong 10% year-over-year growth in sixth freedom revenues, supported by expanded connectivity and robust demand for transatlantic travel. Together, these factors contributed positively to the overall revenue mix and mitigated the impact of the disruption and Canada-U.S. softness.

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

	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
(Canadian dollars in millions)				
Canada	\$ 5,273	\$ 5,255	\$ 18	0.3
U.S. transborder	3,831	4,275	(444)	(10.4)
Atlantic	5,979	5,754	225	3.9
Pacific	2,703	2,792	(89)	(3.2)
Other	1,818	1,684	134	8.0
System	\$ 19,604	\$ 19,760	\$ (156)	(0.8)

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

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

	Full Year 2025 versus Full Year 2024					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	0.3	3.3	2.8	(0.5)	(2.4)	(2.9)
U.S. transborder	(10.4)	(9.6)	(12.0)	(2.2)	1.9	(0.8)
Atlantic	3.9	1.1	2.0	0.8	1.8	2.8
Pacific	(3.2)	3.3	2.2	(1.0)	(5.2)	(6.3)
Other	8.0	8.4	8.8	0.3	(0.7)	(0.4)
System	(0.8)	0.8	0.4	(0.3)	(1.2)	(1.5)

Domestic Passenger Revenues

Domestic passenger revenues were essentially flat year over year, increasing 0.3% to \$5,273 million, reflecting generally stable demand across Canada, supported by a strong fourth quarter, resilient leisure travel and improvements in corporate travel. Capacity growth of 3.3% outpaced traffic growth of 2.8%, resulting in a 0.5-percentage-point decrease in passenger load factor, while yield declined 2.4%, consistent with a higher industry capacity in the Domestic market year over year and the revenue impact associated with the August labour disruption.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues declined 10.4% year over year to \$3,831 million, reflecting a broad softening in demand beginning in the second quarter of 2025, compounded by the effects of the August labour disruption.

During 2025, travel between Canada and the United States experienced a notable decline, primarily driven by ongoing concerns regarding tariffs and related geopolitical uncertainties. As a result of this reduced demand, Air Canada implemented capacity reductions in the transborder market.

Atlantic Passenger Revenues

Atlantic passenger revenues increased 3.9% year over year to \$5,979 million, supported by strong transatlantic demand and traffic and effective deployment of long-haul capacity. Despite the impact of the labour disruption, traffic growth of 2.0% outpaced capacity growth of 1.1%, lifting load factor by 0.8 percentage points, while yield improved 1.8%, reflecting favourable market conditions and a solid premium-cabin performance. The Atlantic continued to be a key driver of international strength, helping offset softness in other regions and contributing positively to Air Canada's overall revenue mix.

Pacific Passenger Revenues

Pacific passenger revenues declined 3.2% year over year to \$2,703 million, reflecting lower load factors and yields versus 2024. This result reflected a normalizing yield environment following significant industry capacity growth in the Pacific market in 2024 and in 2025 as well as, the impact of the labour disruption in August 2025.

Other Passenger Revenues

Other passenger revenues increased 8.0% year over year to \$1,818 million, driven by strong leisure demand across Latin America, the Caribbean and Mexico. Passenger load factor improved 0.3 percentage points, supported by traffic growth that outpaced capacity. This performance helped mitigate weaker results in other areas of the network.



Cargo Revenues

Cargo revenues rose by \$42 million, or 4%, to \$1,033 million. The increase was primarily attributable to higher volumes in Latin America and the Pacific, influenced by shifts in shipping activity resulting from adjustments to tariff deadlines and revisions to U.S. duty-free exemption rules for low-value goods. Domestic growth benefited from improved year-over-year yields. These gains were partially offset by flight cancellations caused by labour disruptions in August.

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

(Canadian dollars in millions)	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 126	\$ 106	\$ 20	19.1
U.S. transborder	53	58	(5)	(8.6)
Atlantic	366	375	(9)	(2.3)
Pacific	322	311	11	3.1
Other	166	141	25	17.7
System	\$ 1,033	\$ 991	\$ 42	4.2

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

Other Revenues

Other revenues increased \$231 million, or 15%, to \$1,735 million in 2025, reflecting strong contribution from ground package revenues at Air Canada Vacations due to higher price and volume. Higher non-air revenues related to the Aeroplan program also contributed to the increase.

Operating Expenses

Total operating expenses increased \$462 million, or 2%, to \$21,454 million in 2025, reflecting higher labour, higher depreciation, maintenance, airport fees, ground package costs and incremental customer compensation and crew-related costs in relation to the August labour disruption. These factors exceeded the benefits of lower fuel prices and cost avoidance directly attributable to the labour disruption.

In 2025, Air Canada recorded a one-time expense of \$194 million relating to past service pension cost resulting from plan amendments following the agreement reached with CUPE and costs associated with streamlining Air Canada's management structure. In contrast, in 2024, Air Canada recorded a one-time pension past service cost of \$490 million resulting from the ratification of the new ALPA collective agreement, a \$34 million charge reflecting the estimated costs related to contractual lease obligations and a one-time operating expense of \$20 million related to the removal of two Boeing 767 freighters from the 2024-2025 fleet plan.

The more notable components of the year-over-year change in operating expenses are described below.

Aircraft Fuel

Aircraft fuel expense decreased \$387 million, or 8%, to \$4,731 million in 2025. The year-over-year improvement was due to lower fuel prices, reduced fuel consumption associated with the August labour disruption, and a favourable swing in fuel-hedging results. In 2025, Air Canada recorded gains of \$65 million from fuel hedging activities, compared to a loss of \$54 million in 2024. The decline in fuel expenses was partially offset by an unfavourable foreign exchange variance.

Wages, Salaries and Benefits

Wages, salaries and benefits expense increased, \$125 million, or 3%, to \$5,005 million. The year-over-year increase was driven by a mix of labour cost inflation related to pay rate adjustments for eligible employee groups, accruals for wage-related initiatives and higher benefits expenses. This was partially offset by the favourable impact of the difference between the past service pension costs recorded in each period as described below.

In 2024, Air Canada recognized a one-time pension past-service cost of \$490 million related to plan amendments under the newly ratified ALPA collective agreement. In contrast, 2025 includes a one-time charge of \$194 million, consisting of \$149 million in past-service pension cost related to plan amendments under the CUPE agreement and the remainder in costs associated with streamlining Air Canada's management structure.

Depreciation, amortization and impairment

Depreciation, amortization, and impairment increased \$213 million, or 12%, to \$2,012 million. The year-over-year increase reflected the combined impact of a larger narrow-body operating fleet, higher capitalized maintenance activity, and the ongoing renewal and modernization of Air Canada's aircraft and on-board product.

Airport and navigation fees

Airport and navigation fees increased \$100 million, or 7%, to \$1,587 million in 2025. The year-over-year increase primarily reflected higher airport and air navigation rates across major Canadian and international airports, as well as the impact of an unfavourable foreign exchange variance.

Aircraft Maintenance

Aircraft maintenance expense increased \$106 million, or 9%, to \$1,343 million. The increase was driven by a greater number of scheduled engine and airframe maintenance events, higher average prices for maintenance work. In addition, the increase reflected the impact of a favourable contract-related adjustment recorded in the third quarter of 2024, which reduced the prior-year comparative baseline. To a lesser extent, an increase in maintenance provisions for leased aircraft that joined the fleet in 2024 contributed to the year-over-year increase.



Ground Package Costs

Ground package costs increased \$90 million, or 12%, to \$872 million driven by higher rates and more passengers compared to 2024 levels. It also reflected the impact of an unfavourable foreign exchange variance.

Other operating expenses

Other operating expenses increased \$143 million, or 6%, to \$2,601 million. The increase reflected the incremental costs associated with reimbursements to customers for out-of-pocket expenses and additional labour-related operating costs in connection with the August labour disruption. In addition, higher terminal handling costs related to increased international flying, higher crew cycle costs, increased consultant fees and the impact of an unfavourable variance in foreign exchange year over year also contributed to the overall increase.

In 2024, Air Canada recorded a charge of \$34 million in other operating expenses reflecting the estimated costs related to contractual lease obligations.

In 2024, Air Canada adjusted its freighter capacity plans to align with market conditions and removed the addition of two Boeing 767 freighters from its 2024-2025 fleet plan. This resulted in a one-time operating expense of \$20 million recorded under other expenses in 2024.

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

	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
(Canadian dollars in millions)				
Terminal handling	\$ 578	\$ 546	\$ 32	6
Crew cycle	357	300	57	19
Building rent and maintenance	327	323	4	1
Miscellaneous fees and services	296	254	42	17
Remaining other expenses	1,043	1,035	8	1
Total other expenses	\$ 2,601	\$ 2,458	\$ 143	6

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

CASM and Adjusted CASM

In 2025, unit cost or CASM, increased 1.4% year over year. The increase in CASM was driven by higher labour expense, increased depreciation and amortization expense, higher airport and navigation fees, elevated maintenance costs, and the impact of incremental customer and operating expenses associated with the August labour disruption. These cost pressures were partially offset by lower aircraft fuel expense, which declined \$387 million, or 8%, year over year due to lower average fuel prices. CASM in 2024 was also influenced by the \$490 million one-time pension past-service cost related to the ALPA collective agreement compared to a \$194 million charge recorded in 2025 consisting of a past-service pension cost related to plan amendments under the CUPE agreement and costs associated to the streamlining of Air Canada's management structure.

Adjusted CASM increased 6.7% from 2024. The increase in adjusted unit cost reflects higher operating expenses in several categories, including labour, depreciation and amortization, aircraft maintenance and airport and navigation fees. Adjusted CASM also reflects the effect of the August labour disruption, which resulted in more than 3,200 flight cancellations and reduced operated capacity and in incremental customer compensation and crew-related costs.

The following table reconciles CASM to adjusted CASM for the periods indicated.

	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
(cents per ASM)				
CASM	¢ 20.40	¢ 20.11	¢ 0.29	1.4
Remove:				
Aircraft fuel expense, ground package costs, freighter costs, pension plan amendments, other labour-related costs and provision for contractual lease obligations	(5.68)	(6.31)	0.63	(10.0)
Adjusted CASM	¢ 14.72	¢ 13.80	¢ 0.92	6.7

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.



Non-Operating Expense

In 2025, non-operating expenses totalled \$129 million, compared to \$748 million in 2024.

The year-over-year change was driven primarily in a net favourable variance of \$645 million in foreign exchange, with a \$245 million foreign exchange gain in 2025 compared to a \$400 million foreign exchange loss in 2024. This improvement was mainly attributable to the revaluation of U.S. dollar-denominated debt and lease liabilities, which resulted from the appreciation of the Canadian dollar against the U.S. dollar as of December 31, 2024. The exchange rate at December 31, 2025, was US\$1 = \$1.37, compared to US\$1 = \$1.44 at December 31, 2024.

Interest income amounted to \$222 million, a decline from \$431 million in the prior year. The decline was due to lower cash balances and decreases in prevailing market interest rates.

Interest expense decreased to \$663 million from \$763 million, reflecting a combination of scheduled debt repayments and lower interest rates.

Income Tax

	Full Year	
	2025	2024
(Canadian dollars in millions)		
Current income tax recovery (expense)	\$ (19)	\$ (30)
Deferred income tax recovery	(126)	1,235
Income tax recovery (expense)	\$ (145)	\$ 1,205

During the third quarter of 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Accordingly, previously unrecognized deferred income tax assets net of the origination and reversal of temporary differences for the nine month period of \$1,056 million were recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of \$1,154 million, tax recovery recorded in the consolidated statement of changes in equity of \$41 million and tax expense recorded in the consolidated statement of comprehensive income of \$139 million related to remeasurements on net employee benefit liabilities.



6. Results of operations – Q4 2025 versus Q4 2024

The table and discussion below provide and compare Air Canada's results for the periods indicated.

	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
<small>(Canadian dollars in millions, except where indicated)</small>				
Operating revenues				
Passenger	\$ 4,998	\$ 4,726	272	6
Cargo	291	293	(2)	(1)
Other	481	385	96	25
Total operating revenues	5,770	5,404	366	7
Operating expenses				
Aircraft fuel	1,185	1,154	31	3
Wages, salaries and benefits	1,255	1,680	(425)	(25)
Depreciation, amortization and impairment	522	460	62	13
Airport and navigation fees	390	357	33	9
Aircraft maintenance	337	361	(24)	(7)
Sales and distribution costs	261	260	1	-
Capacity purchase fees	208	216	(8)	(4)
Ground package costs	239	208	31	15
Communications and information technology	192	162	30	19
Catering and onboard services	185	154	31	20
Other	672	646	26	4
Total operating expenses	5,446	5,658	(212)	(4)
Operating income (loss)	324	(254)	578	
Non-operating income (expense)				
Foreign exchange gain (loss)	103	(372)	475	
Interest income	48	95	(47)	
Interest expense	(155)	(184)	29	
Interest capitalized	21	8	13	
Financial instruments recorded at fair value	6	(38)	44	
Gain on debt settlements and modifications	-	38	(38)	
Other	(5)	(14)	9	
Total non-operating income (loss)	18	(467)	485	
Income (loss) before income taxes	342	(721)	1,063	
Income tax recovery (expense)	(46)	77	(123)	
Net income (loss)	\$ 296	\$ (644)	\$ 940	
Basic earnings (loss) per share	\$ 1.00	\$ (1.81)	\$ 2.81	
Diluted earnings (loss) per share	\$ 1.00	\$ (1.81)	\$ 2.81	
Adjusted EBITDA ⁽²⁾	\$ 867	\$ 696	\$ 171	
Adjusted pre-tax income ⁽²⁾	\$ 244	\$ 135	\$ 109	
Adjusted net income ⁽²⁾	\$ 191	\$ 93	\$ 98	
Adjusted earnings per share – diluted ⁽²⁾	\$ 0.65	\$ 0.25	\$ 0.40	

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

(2) Adjusted EBITDA, adjusted pre-tax income (loss), adjusted net income (loss), and adjusted earnings (loss) per share are non-GAAP financial measures or non-GAAP financial ratios. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for additional information.



System Passenger Revenues

Passenger revenues increased \$272 million, or 5.7%, to \$4,998 million. The quarter benefited from robust underlying demand, with traffic growth outpacing capacity and producing a meaningful improvement in load factor, notably in the Atlantic market.

Consistent with full year performance, premium cabin and sixth freedom revenue performed well in the fourth quarter. Revenues from premium cabins grew 4% year over year while sixth freedom revenues grew 13% year over year with robust strength in the Latin America - Atlantic corridor.

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

(Canadian dollars in millions)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 1,346	\$ 1,305	\$ 41	3.1
U.S. transborder	975	1,059	(84)	(7.9)
Atlantic	1,441	1,263	178	14.0
Pacific	686	646	40	6.3
Other	550	453	97	21.5
System	\$ 4,998	\$ 4,726	\$ 272	5.7

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

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

	Fourth Quarter 2025 versus Fourth Quarter 2024					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	3.1	1.0	3.7	2.2	(0.6)	2.1
U.S. transborder	(7.9)	(12.3)	(11.9)	0.4	4.5	5.0
Atlantic	14.0	4.9	10.9	4.7	2.8	8.7
Pacific	6.3	9.5	9.5	-	(3.0)	(3.0)
Other	21.5	19.0	22.4	2.3	(0.8)	2.0
System	5.7	3.4	6.3	2.4	(0.6)	2.3

Domestic Passenger Revenues

Canada passenger revenues increased \$41 million, or 3.1%, to \$1,346 million in the fourth quarter of 2025. The year-over-year improvement reflected a 2.2-percentage-point improvement in load factors driven by strong traffic growth, including a positive impact from improvements in corporate traffic. The growth was partially offset by a small decline in yields from the fourth quarter of 2024.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues declined \$84 million, or 7.9%, to \$975 million in Q4. The decline was due to lower traffic year over year as a result of reduced demand for transborder travel.

During 2025, travel between Canada and the United States experienced a notable decline, primarily driven by ongoing concerns regarding tariffs and related geopolitical uncertainties. As a result of this reduced demand, Air Canada implemented capacity reductions in the transborder market.

Atlantic Passenger Revenues

Atlantic passenger revenues increased \$178 million, or 14.0%, to \$1,441 million, representing the strongest regional performance of the quarter. The growth was supported by very strong transatlantic demand, driving a 4.7 percentage-point increase in load factor. Yield was also up 2.8%, reflecting strong premium-cabin demand and favourable market conditions. The Atlantic continued to benefit from Air Canada's sixth-freedom connecting flows, strengthened hub connectivity, and sustained demand for international travel.

Pacific Passenger Revenues

Pacific passenger revenues increased \$40 million, or 6.3%, to \$686 million in the fourth quarter of 2025. Performance reflected solid traffic growth, which rose 9.5%, in line with the capacity increase. Load factor was stable, while yield declined 3.0% as pricing normalized following significant industry-wide capacity additions and competitive dynamics in several Asia-Pacific markets.

Other Passenger Revenues

Other region passenger revenues increased \$97 million, or 21.5%, to \$550 million, marking another standout performance in the quarter. Revenue growth was driven by a 2.3 percentage-point increase in load factor supported by a 22.4% traffic growth on 19% more capacity year over year, reflective of robust demand for travel to Latin America, the Caribbean and between Latin America and Europe.



Cargo Revenues

Cargo revenues decreased \$2 million, or 0.8%, to \$291 million in the fourth quarter of 2025. The decline was primarily due to lower volume in the Pacific and Transborder and yield in the Atlantic. The decline was partially offset by stronger yields year over year in the Domestic market and higher volumes in Latin America.

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

(Canadian dollars in millions)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 44	\$ 30	\$ 14	48.4
U.S. transborder	11	17	(6)	(34.1)
Atlantic	103	110	(7)	(7.0)
Pacific	84	92	(8)	(8.6)
Other	49	44	5	10.3
System	\$ 291	\$ 293	\$ (2)	(0.8)

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

Other Revenues

Other revenues increased \$96 million, or 25%, to \$481 million in the fourth quarter of 2025. The year-over-year growth was driven primarily by higher ground package revenues at Air Canada Vacations, supported by strong leisure demand across our Sun network, and higher non-air revenues related to the Aeroplan program.

Operating Expenses

Operating expenses decreased \$212 million, or 4%, to \$5,446 million in the fourth quarter of 2025, largely due to the impact of the \$490 million one-time pension past-service cost recorded in the fourth quarter of 2024 related to the ALPA collective agreement. Excluding this item, operating expenses were higher year over year, reflecting pressures in several cost categories. In the fourth quarter of 2025, Air Canada recorded an expense of \$21 million related to the streamlining of Air Canada's management structure.

The more notable components of the year-over-year change in operating expenses are described below.

Aircraft Fuel

Aircraft fuel expense increased \$31 million, or 3%, to \$1,185 million in the fourth quarter of 2025. The year-over-year increase was driven primarily by higher fuel consumption, reflecting increased flying and higher operated capacity in Q4 2025. This was partly offset by lower average jet-fuel prices, which moderated the impact of increased volumes. The variance included the impact of \$17 million in hedge gains recorded in the fourth quarter of 2025 (a loss of \$21 million in the fourth quarter of 2024.)

Wages, Salaries and Benefits

Wages, salaries and benefits expense decreased \$425 million, or 25%, to \$1,255 million in the fourth quarter of 2025. The decrease reflected the one-time pension past service cost of \$490 million recorded in the fourth quarter of 2024 as a result of certain pension plan amendments made in conjunction with the collective agreement with ALPA. The decline was partially offset by labour cost inflation related to pay rate adjustments for eligible employee groups, accruals for wage-related initiatives, higher benefits expenses and a \$21 million expense related to the streamlining of Air Canada's management structure.

Depreciation, amortization and impairment

Depreciation, amortization and impairment expense increased \$62 million, or 13%, to \$522 million in the fourth quarter of 2025. The year-over-year increase reflected the impact of a larger narrow-body operating fleet, including aircraft added over the past year, as well as a higher number of capitalized maintenance events completed in 2025.

Airport and navigation Fees

Airport and navigation fees increased \$33 million, or 9%, to \$390 million in the fourth quarter of 2025. The year-over-year increase was driven by higher airport and air navigation rates in Canada and certain international regions, combined with increased flying activity and an unfavourable year over year foreign exchange variance.

Aircraft maintenance

Maintenance expenses decreased \$24 million, or 7%, to \$337 million in the fourth quarter of 2025. The decline was primarily due to fewer airframe and engine maintenance events, in part, due to the reduction in the total number of Airbus A319 aircraft in the fleet.



Ground Package Costs

Ground package costs increased \$31 million, or 15%, to \$239 million in the fourth quarter of 2025 driven by a greater number of passengers and higher prices year over year.

Catering and onboard services

Catering and onboard services increased \$31 million, or 20%, in the fourth quarter of 2025 driven by higher flying activity, passenger traffic and food prices.

Other operating expenses

Other operating expenses increased \$26 million, or 4%, to \$672 million in the fourth quarter of 2025. The year-over-year increase reflected higher costs across several expense categories, including consultant fees, terminal handling, crew cycle, and building-related expenses.

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

(Canadian dollars in millions)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Terminal handling	\$ 147	\$ 135	\$ 12	9
Crew cycle	86	75	11	15
Building rent and maintenance	91	82	9	11
Miscellaneous fees and services	95	78	17	22
Remaining other expenses	253	276	(23)	(8)
Total other expenses	\$ 672	\$ 646	\$ 26	4

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

CASM and Adjusted CASM

In the fourth quarter of 2025, CASM decreased 6.9% year over year. This decrease was driven primarily by the favourable impact of the \$490 million one-time pension past-service cost recorded in Q4 2024 as part of the ALPA collective agreement. The decrease was partially offset by higher expenses in various categories, which increased at a higher rate than capacity.

Adjusted CASM increased 1.9% year-over-year reflecting higher operating expenses in various categories including labour, depreciation and amortization, airport and navigation fees and catering. This was partially offset by a decline in aircraft maintenance expense and the year over year increase in capacity.

The following table reconciles CASM to adjusted CASM for the periods indicated.

(cents per ASM)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
CASM	¢ 21.12	¢ 22.67	¢ (1.55)	(6.9)
Remove:				
Aircraft fuel expense, ground package costs, freighter costs, pension plan amendments and other labour-related charges	(5.78)	(7.62)	1.84	(24.1)
Adjusted CASM	¢ 15.34	¢ 15.05	¢ 0.29	1.9

(1) Percentage change amounts in the table above may not calculate exactly due to rounding.

Non-Operating Income (Expense)

In the fourth quarter of 2025, Air Canada recorded a non-operating income of \$18 million compared to a non-operating expense of \$467 million in the fourth quarter of 2024.

The year-over-year variance was driven primarily in a net favourable variance of \$475 million in foreign exchange, with a \$103 million foreign exchange gain in the fourth quarter of 2025 compared to a \$372 million foreign exchange loss in the fourth quarter of 2024. The gain was primarily due a favourable revaluation of U.S. dollar-denominated debt and lease liabilities resulting from the strengthening of the Canadian dollar versus the U.S. dollar from September 30, 2025. The closing exchange rate at December 31, 2025, was US\$1=\$1.37 compared to US\$1=\$1.39 at September 30, 2025.

Interest income decreased year over year, from \$95 million to \$48 million, due to lower cash balances and softer prevailing interest rates.


Interest expense also improved, declining to \$155 million from \$184 million in Q4 2024, a favourable variance of \$29 million, reflecting a combination of scheduled debt repayments and lower interest rates.

7. Fleet

The tables below provide information relating to the aircraft in the operating fleets of Air Canada and Air Canada Rouge as well as the aircraft operated on behalf of Air Canada by regional carriers under the Air Canada Express brand.

Mainline and Air Canada Rouge

The tables below provide information relating to the aircraft in Air Canada's and Air Canada Rouge's operating fleets as at December 31, 2025.

 Air Canada	At December 31, 2025				
	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Wide-body aircraft					
Boeing 777-300ER	19	418	15.8	12	7
Boeing 777-200LR	6	300	18.3	4	2
Boeing 787-8	8	255	11.5	8	-
Boeing 787-9	32	298	8.3	26	6
Boeing 767-300 freighters	6	-	32.0	4	2
Airbus A330-300	20	295	19.3	12	8
Total wide-body aircraft	91	320	14.8	66	25
Narrow-body aircraft					
Boeing 737 MAX 8	47	172	5.3	31	16
Airbus A321	21	193	20.1	11	10
Airbus A320	22	122	29.7	9	13
Airbus A319	1	136	28.8	1	-
Airbus A220-300	41	137	4.1	41	-
Total narrow-body aircraft	132	156	11.5	93	39
Total Mainline	223	220	12.9	159	64
 Air Canada Rouge	At December 31, 2025				
	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Narrow-body aircraft					
Airbus A321	13	196	10.7	4	9
Airbus A320	5	168	18.8	-	5
Airbus A319	15	136	28.5	15	-
Total Air Canada Rouge	33	164	20.0	19	14
Total Mainline & Rouge	256	213	13.8	174	82



The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleet for the dates indicated. The table also provides the planned Air Canada and Air Canada Rouge fleet as at the future dates indicated. They also reflect the anticipated transfer of all the Boeing 737 MAX aircraft to Air Canada Rouge, which is expected to commence in 2026, and that certain Airbus A320 family aircraft are expected to be reassigned to Air Canada's mainline operations.



	Actual			Planned*			
	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Air Canada							
Wide-body aircraft							
Boeing 777-300ER	19	-	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	31	1	32	-	32	-	32
Boeing 787-10	-	-	-	2	2	5	7
Boeing 767-300 freighters	6	-	6	-	6	-	6
Airbus A330-300	20	-	20	-	20	-	20
Total wide-body aircraft	90	1	91	2	93	5	98
Narrow-body aircraft							
Boeing 737 MAX 8	41	6	47	(47)	-	-	-
Airbus A321XLR	-	-	-	10	10	10	20
Airbus A321	20	1	21	5	26	8	34
Airbus A320	22	-	22	-	22	(3)	19
Airbus A319	5	(4)	1	(1)	-	-	-
Airbus A220-300	34	7	41	18	59	6	65
Total narrow-body aircraft	122	10	132	(15)	117	21	138
Total Mainline	212	11	223	(13)	210	26	236



	Actual			Planned*			
	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Air Canada Rouge							
Narrow-body aircraft							
Boeing 737 MAX 8*	-	-	-	52	52	-	52
Airbus A321	14	(1)	13	(5)	8	(8)	-
Airbus A320	5	-	5	(5)	-	-	-
Airbus A319	18	(3)	15	(15)	-	-	-
Total Air Canada Rouge	37	(4)	33	27	60	(8)	52
Total Mainline & Rouge	249	7	256	14	270	18	288

*Where applicable, planned transfers are subject to obtaining the necessary approvals.



Air Canada Express

The table below provides the number of aircraft operated on behalf of Air Canada by regional carriers under the Air Canada Express brand, for the dates indicated. The table also provides the planned Air Canada Express fleet as at the future dates indicated.



Air Canada Express

	Actual			Planned*			
	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-900	35	(4)	31	(1)	30	-	30
De Havilland Dash 8-400	45	(4)	41	-	41	-	41
Total Air Canada Express	105	(8)	97	(1)	96	-	96



8. Financial and capital management

8.1 Liquidity

Liquidity Risk Management

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 8.5 “Capital Expenditures and Related Financing Arrangements”, 8.6 “Pension Funding Obligations”, and 8.7 “Contractual Obligations” of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. In addition, Air Canada monitors its financial leverage as measured by the net debt to adjusted EBITDA ratio, as further described in section 8.2 “Net Debt” of this MD&A. Air Canada also evaluates its liquidity needs including the impact of its working capital position, as discussed in section 8.3 “Working Capital” of this MD&A. Notably, advance ticket sales and the current portion of Aeroplan and other deferred revenues are structural components of the working capital deficiency. These items represent sources of cash from operations that are recognized as revenues and therefore support Air Canada’s ongoing liquidity.

At December 31, 2025, total liquidity was \$7,500 million comprised of cash and cash equivalents, short-term and long-term investments of \$6,165 million, and \$1,335 million available under undrawn credit facilities. Cash and cash equivalents included \$333 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents and short- and long-term investments. Liquidity needs, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

8.2 Net debt

The table below reflects Air Canada’s net debt balances as at December 31, 2025, and as at December 31, 2024.

(Canadian dollars in millions)	December 31, 2025	December 31, 2024	\$ Change
Total long-term debt and lease liabilities	\$ 8,609	\$ 10,915	\$ (2,306)
Current portion of long-term debt and lease liabilities	2,967	1,755	1,212
Total long-term debt and lease liabilities (including current portion)	11,576	12,670	(1,094)
Less cash, cash equivalents and short and long-term investments	(6,165)	(7,752)	1,587
Net debt⁽¹⁾	\$ 5,411	\$ 4,918	\$ 493
Adjusted EBITDA (trailing 12 months)	\$ 3,124	\$ 3,586	\$ (462)
Net debt to adjusted EBITDA ratio⁽¹⁾	1.7	1.4	0.3

(1) Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Net debt to adjusted EBITDA ratio (also referred to as “leverage ratio” in this MD&A) is a non-GAAP financial ratio and is used by Air Canada to measure financial leverage. For additional information on net debt, refer to section 20 “Non-GAAP Financial Measures” of this MD&A.

The reduction in total debt and liabilities reflects repayments totaling \$1,744 million, including the settlement of the convertible notes upon their maturity on July 1, 2025. Additionally, the appreciation of the Canadian dollar as of December 31, 2025, relative to December 31, 2024, resulted in a \$417 million decrease in foreign currency denominated debt, primarily in U.S. dollars. These reductions were partially offset by a \$231 million drawdown in September 2025 under Air Canada’s facility with Export Development Canada for five previously delivered A220 aircraft, as well as newly incurred lease liabilities.

Net debt to adjusted EBITDA ratio was 1.7 at December 31, 2025, compared to 1.4 at December 31, 2024. Net debt increased \$493 million reflecting the decrease in the liquidity balance resulting from the financing transactions described above, the use of \$859 million for the purchase and cancellation of shares (as discussed in section 8.8 “Share Information” of this MD&A), partially offset by free cash flow generation of \$747 million in 2025. The decrease in adjusted EBITDA which includes the financial impact of the labour disruption in August 2025, negatively impacted the ratio.



8.3 Working capital

The table below provides information on Air Canada's working capital balances as at December 31, 2025, and December 31, 2024.

(Canadian dollars in millions)	December 31, 2025	December 31, 2024	\$ Change
Cash, cash equivalents and short-term investments	\$ 5,525	\$ 6,982	\$ (1,457)
Accounts receivable	1,292	1,089	203
Other current assets	1,099	991	108
Total current assets	\$ 7,916	\$ 9,062	\$ (1,146)
Accounts payable and accrued liabilities	4,513	3,718	795
Advance ticket sales	4,814	4,387	427
Aeroplan and other deferred revenues	1,840	1,588	252
Current portion of long-term debt and lease liabilities	2,967	1,755	1,212
Total current liabilities	\$ 14,134	\$ 11,448	\$ 2,686
Net working capital	\$ (6,218)	\$ (2,386)	\$ (3,832)

At December 31, 2025, Air Canada reported a working capital deficiency of \$6,218 million, an increase of \$3,832 million compared to December 31, 2024. This increase primarily reflected:

- The use of \$859 million for the purchase of shares for cancellation, as discussed in section 8.8 "Share Information" of this MD&A and \$2,910 million in capital investments.
- An increase of \$1,212 million in the current portion of long-term debt and lease liabilities, primarily due to the upcoming 2026 maturity of Air Canada's U.S. dollar Senior Secured Notes, which Air Canada intends to refinance in 2026.

The increase was partially offset by earnings generated during the year.

8.4 Cash flow movements

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Net cash flows from operating activities	\$ 423	\$ 677	\$ (254)	\$ 3,657	\$ 3,930	\$ (273)
Net cash flows used in financing activities	(305)	(715)	410	(2,370)	(2,872)	502
Net cash flows used in investing activities	(1,209)	(845)	(364)	(1,005)	(1,363)	358
Effect of exchange rate changes on cash and cash equivalents	(4)	8	(12)	(5)	6	(11)
Increase (decrease) in cash and cash equivalents	\$ (1,095)	\$ (875)	\$ (220)	\$ 277	\$ (299)	\$ 576



Net Cash Flows from Operating Activities

Air Canada generated net cash flows from operating activities in each of the fourth quarter and full year 2025. The decline in net cash flows from operating activities was largely driven by the year-over-year decrease in adjusted EBITDA, which included the financial impact of the labour disruption in August 2025. This was partially offset by the favourable impact of cash from working capital items, including higher cash from advance ticket sales.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities amounted to \$2,370 million in 2025, a decrease of \$502 million from the prior year. Cash used included \$859 million used for the purchase of shares for cancellation as discussed in section 8.8 "Share Information" of this MD&A and \$373 million used to repay and cancel convertible notes following their maturity on July 1, 2025. This was partially offset by \$231 million drawn for five A220 aircraft which had been previously delivered, as discussed in section 8.5 "Capital Expenditures and Related Financing Arrangements". The comparative period reflected a \$1,475 million (U.S. \$1,090 million) debt repayment for a refinancing transaction completed in March 2024.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities decreased \$358 million in 2025 compared to 2024 mainly due to inflows from short-term and long-term investments partially offset by a \$274 million increase in capital expenditures. Net proceeds of \$1,812 million in disposal of short- and long-term investments supported the \$859 million used for purchase and cancellation of approximately 44 million shares in 2025. Additions to property, equipment and intangible assets were \$2,910 million in 2025 compared to \$2,636 million in 2024.

Refer to sections 8.2 "Net Debt", and 8.3 "Working Capital" of this MD&A for additional information.

Free Cash Flow

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Net cash flows from operating activities	\$ 423	\$ 677	\$ (254)	\$ 3,657	\$ 3,930	\$ (273)
Additions to property, equipment, and intangible assets	(901)	(1,172)	271	(2,910)	(2,636)	(274)
Free cash flow⁽¹⁾	\$ (478)	\$ (495)	\$ 17	\$ 747	\$ 1,294	\$ (547)

(1) Free cash flow is a non-GAAP financial measure used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash it can generate from operations after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets and net of proceeds from sale and leaseback transactions. Such measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for additional information.

Air Canada produced \$747 million in free cash flow in 2025, a decrease from 2024 due to increased capital expenditures and lower operating cash flow resulting from the year-over-year decline in adjusted EBITDA.



8.5 Capital expenditures and related financing arrangements

Airbus A321XLR Aircraft

Air Canada is acquiring 30 extra-long range (XLR) Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in the first quarter of 2026 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 10 additional aircraft between 2030 and 2032.

Airbus A220-300 Aircraft

Air Canada has an agreement with Airbus Canada for the purchase of Airbus A220-300 aircraft, which provides for:

- Firm orders for 65 Airbus A220-300 aircraft.
- Purchase options for 10 additional Airbus A220-300 aircraft.

Of the above-mentioned 65 firm orders, 41 were delivered as at December 31, 2025, with an additional delivery that occurred in early 2026. Deliveries for the 23 remaining firm orders are planned to continue into 2027.

In October 2024, Air Canada received a loan commitment from Export Development Canada of up to US\$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft, which are expected to be delivered no later than October 2027. In September 2025, Air Canada has drawn \$231 million under this facility for five Airbus A220 aircraft which had been previously delivered.

Boeing 737 MAX

Air Canada's agreement with Boeing for the purchase of Boeing 737 MAX aircraft provides for firm orders for 40 Boeing 737 MAX 8 aircraft (which have all been delivered) and purchase options for 10 additional Boeing 737 MAX aircraft.

In 2023, Air Canada entered into lease agreements for five additional Boeing 737 MAX 8 aircraft that are scheduled to enter the operating fleet in 2026.

In June 2024, Air Canada entered into lease agreements for eight additional Boeing 737 MAX 8 aircraft. In February 2025, Air Canada reduced the total number of aircraft to seven, all of which have been delivered.

Boeing 787-10 Aircraft

In September 2023, Air Canada announced that it was acquiring 18 Boeing 787-10 aircraft. In November 2025, the total number of aircraft was reduced to 14, of which 10 are scheduled to be delivered by 2028 and the remainder of 4 by 2030. Deliveries are scheduled to begin in 2026. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.

Airbus A350-1000 Aircraft

In February 2026, Air Canada announced that it is acquiring eight Airbus A350-1000 aircraft with deliveries scheduled to begin in 2030. The purchase agreement includes purchase rights for eight additional Airbus A350-1000 aircraft.

Heart Aerospace ES-30 Electric Aircraft

In 2022, Air Canada entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. The purchase remains subject to conditions including in relation to the design and specifications of the aircraft. In addition, the final cost for the aircraft, which is subject to a price cap, is not yet determinable and is not included in the table below. These aircraft would not be expected to start entry into service before at least 2029.



Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at December 31, 2025 amounted to \$12,644 million.

	2026	2027	2028	2029	2030	Thereafter	Total
Committed expenditures	\$ 2,549	\$ 2,491	\$ 1,569	\$ 1,358	\$ 1,278	\$ 3,399	\$ 12,644
Projected planned but uncommitted expenditures	611	901	835	836	867	Not available	Not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	604	766	708	680	650	Not available	Not available
Total projected expenditures⁽²⁾	\$ 3,764	\$ 4,158	\$ 3,112	\$ 2,874	\$ 2,795	Not available	Not available

(1) Future capitalized maintenance amounts for 2029 and beyond are not yet determinable, however estimates of \$680 million and \$650 million have been made for 2029 and 2030, respectively.

(2) U.S. dollar amounts are converted using the December 31, 2025 closing exchange rate of US\$1=C\$1.37. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

Air Canada has entered into non-binding letters for up to \$2 billion in sale and leaseback transactions expected to close in 2026 and 2027, subject to the execution of definitive and binding agreements and completion of standard conditions precedent. The commitments table presented above does not reflect these transactions.

8.6 Pension funding obligations

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans and supplemental pension plans. Air Canada also sponsors several defined contribution pension plans and pension plans for foreign employees and contributes to some multi-employer pension plans. In addition, Air Canada has plans providing other retirement and post-employment benefits to its employees.

On a preliminary basis, at January 1, 2026, the aggregate solvency surplus in Air Canada's domestic registered pension plans was estimated at \$5.1 billion. The final valuations will be completed in the first half of 2026. As permitted by legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Total employer defined benefit pension funding contributions (including international and supplemental plans) amounted to \$72 million in 2025 and are forecasted to be \$73 million in 2026.

Net of the surplus in the defined benefit components which was used to fund the employer contribution to a defined contribution component within the same pension plan, total employer contributions for the defined contribution plans and multi-employer plans amounted to \$107 million in 2025 and are forecasted to be \$111 million in 2026.

In 2025, Air Canada recorded a one-time pension past service cost of \$149 million as a result of the pension plan amendments made in conjunction with the collective agreement reached with CUPE. Certain of these plan amendments are conditional on future pension solvency surplus positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. These amendments

will be funded out of the surplus in the flight attendants' domestic registered pension plans and are not expected to impact Air Canada's liquidity position.

As at December 31, 2025, approximately 92% of Air Canada's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada seeks to maintain a high percentage of long-term fixed income products to hedge pension liabilities.

Pension plan assets

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2024 – 17,646,765) shares of Air Canada which were issued to a trust in 2009 in connection with pension funding agreements reached with all of Air Canada's Canadian-based unions. The trust arrangement provides that proceeds of any sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize.

With Air Canada's Domestic Registered Plans now in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust have a fair value of \$340 million at December 31, 2025 (2024 – \$393 million), although after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If certain conditions are met, the trust would gradually sell shares up to the end of 2037, and the net proceeds from these sales would be used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. There are several conditions to the completion of the agreement in principle and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. The financial statements do not reflect any accounting consequences related to this, as these would only be determined upon the conditions and required approvals being met.



8.7 Contractual obligations

The table below provides Air Canada's projected contractual obligations as at December 31, 2025, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(Canadian dollars in millions)

	2026	2027	2028	2029	2030	Thereafter	Total
Principal							
Long-term debt ⁽¹⁾	\$ 2,429	\$ 1,068	\$ 1,389	\$ 2,313	\$ 452	\$ 1,644	\$ 9,295
Lease liabilities	538	369	311	216	172	866	2,472
Total principal obligations	\$ 2,967	\$ 1,437	\$ 1,700	\$ 2,529	\$ 624	\$ 2,510	\$ 11,767
Interest							
Long-term debt	\$ 382	\$ 285	\$ 316	\$ 499	\$ 101	\$ 40	\$ 1,623
Lease liabilities	127	101	81	63	51	275	698
Total interest obligations	\$ 509	\$ 386	\$ 397	\$ 562	\$ 152	\$ 315	\$ 2,321
Total long-term debt and lease liabilities	\$ 3,476	\$ 1,823	\$ 2,097	\$ 3,091	\$ 776	\$ 2,825	\$ 14,088
Committed capital expenditures	\$ 2,549	\$ 2,491	\$ 1,569	\$ 1,358	\$ 1,278	\$ 3,399	\$ 12,644
Total contractual obligations⁽²⁾	\$ 6,025	\$ 4,314	\$ 3,666	\$ 4,449	\$ 2,054	\$ 6,224	\$ 26,732

(1) The full principal balance of \$1,273 million for the unsecured credit facility and \$1,584 million (US\$1,154 million) for the term loan B maturing in 2031 are included.

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



8.8 Share information

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

	December 31, 2025	December 31, 2024
Issued and outstanding shares		
Class A variable voting shares	66,330,053	102,314,033
Class B voting shares	228,219,567	237,525,089
Total issued and outstanding shares	294,549,620	339,839,122
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	-	17,856,599
Stock options	12,137,096	9,230,773
Total shares potentially issuable	12,137,096	27,087,372
Total outstanding and potentially issuable shares	306,686,716	366,926,494

Normal Course Issuer Bids

In 2024, Air Canada received approval from the Toronto Stock Exchange (TSX) to launch a normal course issuer bid (NCIB) allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 5, 2024 to November 4, 2025, up to 35,783,842 shares representing about 10% of the public float of its Class A Variable Voting Shares and Class B Voting Shares (collectively Shares) as at October 22, 2024.

In 2024, and pursuant to the NCIB, Air Canada purchased, for cancellation, 20,279,100 shares at an average cost of \$23.92 per share for aggregate consideration of \$485 million.

In the first quarter of 2025, Air Canada purchased an additional 15,504,742 shares at an average cost of \$20.30 per share for aggregate consideration of \$315 million effectively purchasing the maximum amount of 35,783,842 shares available for purchase for cancellation under its NCIB.

In the fourth quarter of 2025, Air Canada received approval from the Toronto Stock Exchange ("TSX") to launch a normal course issuer bid ("Issuer Bid") allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 7, 2025 to November 6, 2026, up to 29,557,428 of its shares, representing about 10% of the public float of its Shares as at October 24, 2025. In the fourth quarter of 2025, Air Canada purchased, for cancellation, 1,778,824 shares at an average cost of \$18.63 per share for aggregate consideration of \$33 million (of which 51,637 shares were cancelled in the first business days after December 31, 2025 related to administrative delay between purchase and cancellation in the books of the registrar).

In January 2026, Air Canada purchased an additional 1,077,897 shares at an average cost of \$19.43 per share for an aggregate consideration of \$21 million.

In connection with the Issuer Bid, Air Canada entered into an automatic share purchase plan (the "Plan") with its designated broker under which it may, but is not required to, instruct the broker to make purchases at times when it would ordinarily not be active in the market due to regulatory restrictions, self-imposed blackout periods or otherwise. Purchases by the designated broker made under the Plan, if any, will be based on parameters established by Air Canada in accordance with the rules of the TSX, applicable securities laws and the terms of the Plan.

Air Canada security holders may obtain a copy of Air Canada's Notice of Intention to Make a Normal Course Issuer Bid, without charge, by contacting Shareholder Relations at shareholders.actionnaires@aircanada.ca.

Substantial Issuer Bid

On May 8, 2025, Air Canada announced a substantial issuer bid (SIB) pursuant to which Air Canada offered to purchase for cancellation up to \$500 million of its shares.

The SIB was made by way of a modified "Dutch auction" under which shareholders wishing to tender could do so through (i) an auction tender at a price not less than \$18.50 per share and not more than \$21.00 per share or (ii) a purchase price tender at the purchase price to be determined by the auction tenders.

A total of about 26.8 million shares were validly deposited in the SIB and not withdrawn pursuant to auction tenders at or below \$18.80 or purchase price tenders. As the SIB was oversubscribed, about 99.14% of the successfully tendered shares were taken up by Air Canada, in addition to "odd lot" tenders not subject to proration. On June 25, 2025, Air Canada purchased, for cancellation, 26,595,744 shares for \$18.80 per share for aggregate consideration of \$500 million.

Convertible Notes

Air Canada repaid US\$274 million aggregate principal amount of indebtedness representing all its outstanding 4.000% convertible senior notes due July 2025 for an aggregate amount of approximately US\$280 million (\$382 million), including accrued interest. The convertible notes were cancelled upon repayment following their maturity on July 1, 2025, reducing the number of potentially issuable shares.



9. Quarterly financial data

The table below provides select financial information for Air Canada for the last eight quarters.

	2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(Canadian dollars in millions, except per share figures)								
Operating revenues	\$ 5,226	\$ 5,519	\$ 6,106	\$ 5,404	\$ 5,196	\$ 5,632	\$ 5,774	\$ 5,770
Operating expenses	5,215	5,053	5,066	5,658	5,304	5,214	5,490	5,446
Operating income (loss)	11	466	1,040	(254)	(108)	418	284	324
Non-operating income (expense)	(76)	(62)	(143)	(467)	(59)	(315)	227	18
Income (loss) before income taxes	(65)	404	897	(721)	(167)	103	511	342
Income tax recovery (expense)	(16)	6	1,138	77	65	83	(247)	(46)
Net income (loss)	\$ (81)	\$ 410	\$ 2,035	\$ (644)	\$ (102)	\$ 186	\$ 264	\$ 296
Basic earnings (loss) per share	\$ (0.22)	\$ 1.14	\$ 5.68	\$ (1.81)	\$ (0.31)	\$ 0.58	\$ 0.89	\$ 1.00
Diluted earnings (loss) per share	\$ (0.22)	\$ 1.04	\$ 5.38	\$ (1.81)	\$ (0.40)	\$ 0.51	\$ 0.88	\$ 1.00
Adjusted EBITDA⁽¹⁾	\$ 453	\$ 914	\$ 1,523	\$ 696	\$ 387	\$ 909	\$ 961	\$ 867
Adjusted pre-tax income (loss)⁽¹⁾	\$ (94)	\$ 371	\$ 985	\$ 135	\$ (215)	\$ 300	\$ 329	\$ 244
Adjusted net income (loss)⁽¹⁾	\$ (96)	\$ 369	\$ 969	\$ 93	\$ (150)	\$ 207	\$ 223	\$ 191
Adjusted earnings (loss) per share – diluted⁽¹⁾	\$ (0.27)	\$ 0.98	\$ 2.57	\$ 0.25	\$ (0.45)	\$ 0.60	\$ 0.75	\$ 0.65

(1) Adjusted EBITDA, adjusted pre-tax income (loss) and adjusted net income (loss) are non-GAAP financial measures. Adjusted earnings (loss) per share is a non-GAAP financial ratio. For additional information, refer to section 20 "Non-GAAP Financial Measures" of this MD&A.



10. Annual information

The table below provides select financial information for Air Canada for the periods indicated.

	Full Year		
	2025	2024	2023 ⁽¹⁾
(Canadian dollars in millions, except per share figures)			
Operating revenues	\$ 22,372	\$ 22,255	\$ 21,833
Operating expenses	21,454	20,992	19,554
Operating income	918	1,263	2,279
Income before income taxes	789	515	2,212
Income tax recovery (expense)	(145)	1,205	64
Net income	\$ 644	\$ 1,720	\$ 2,276
Basic earnings per share	\$ 2.07	\$ 4.81	\$ 6.35
Diluted earnings per share	\$ 1.86	\$ 4.72	\$ 5.96
Adjusted EBITDA⁽²⁾	\$ 3,124	\$ 3,586	\$ 3,982
Adjusted pre-tax income⁽²⁾	\$ 658	\$ 1,397	\$ 1,693
Adjusted net income⁽²⁾	\$ 471	\$ 1,335	\$ 1,713
Adjusted earnings per share – diluted⁽²⁾	\$ 1.47	\$ 3.55	\$ 4.56
Cash, cash equivalents and short-term investments	\$ 5,525	\$ 6,982	\$ 8,551
Total assets	\$ 31,215	\$ 31,208	\$ 30,171
Total long-term liabilities	\$ 14,490	\$ 17,372	\$ 19,376
Total liabilities	\$ 28,624	\$ 28,820	\$ 29,375

(1) Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

(2) Adjusted EBITDA, adjusted pre-tax income (loss) and adjusted net income (loss) are non-GAAP financial measures. Adjusted earnings (loss) per share is a non-GAAP financial ratio. For additional information, refer to section 20 "Non-GAAP Financial Measures" of this MD&A.



11. Financial instruments and risk management

Financial Instruments Recorded at Fair Value

The following is a summary of gains (losses) on financial instruments recorded at fair value included in non-operating income (expense) on Air Canada's consolidated statement of operations for the periods indicated.

(Canadian dollars in millions)

	Fourth Quarter		Full Year	
	2025	2024	2025	2024
Embedded derivative on convertible notes	\$ -	\$ (35)	\$ 45	\$ 11
Short-term and long-term investments	6	(3)	37	17
Gain (loss) on financial instruments recorded at fair value	\$ 6	\$ (38)	\$ 82	\$ 28

Risk Management

Under its risk management policy, Air Canada manages its market risk through the use of various financial derivative instruments. Air Canada uses these instruments solely for risk management purposes, not for generating trading profit. As such, any change in cash flows associated with derivative instruments is designed to be an economic hedge and offset by changes in cash flows of the relevant risk being hedged.

The fair values of derivative instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair values of these derivatives are determined using prices in active markets, where available. When no such market is available, valuation techniques such as discounted cash flow analysis are applied. The valuation technique incorporates all factors that would be considered in setting a price, including Air Canada's own credit risk as well as the credit risk of the counterparty.

Fuel Price Risk Management

Fuel price risk is the risk that future cash flows will fluctuate because of changes in jet fuel prices. To manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada can elect to enter into derivative contracts with financial intermediaries. Air Canada may use derivative contracts based on jet fuel, heating oil and crude-oil based contracts. Air Canada's policy permits hedging of up to 75% of the projected jet fuel purchases for the current calendar year, 50% of the projected jet fuel purchases for the next calendar year, and 25% of projected jet fuel purchases for any calendar year thereafter. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. There are regular reviews to adjust the strategy in light of market conditions.

During 2025, Air Canada entered into jet fuel swap derivative contracts covering a portion of 2025 fuel exposure. These derivative contracts cash settled with a fair value of \$65 million in favor of Air Canada, with a hedging gain of \$65 million recorded in Aircraft fuel expense (hedging loss of \$54 million for the year ended December 31, 2024). No hedge ineffectiveness was recorded. As at December 31, 2025, jet fuel swap derivatives with a negative fair value of \$4 million were outstanding, covering a portion of 2026 fuel exposure. There were no outstanding fuel derivatives as at December 31, 2024.

Including hedges entered into in early 2026, Air Canada has hedged approximately 17% of the anticipated purchases of jet fuel for the first half of 2026 at an average jet fuel price of US\$0.51 per litre. Air Canada's contracts to hedge anticipated jet fuel purchases are composed of jet fuel swaps.

Foreign Exchange Risk

Air Canada's financial results are reported in Canadian dollars, while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. Air Canada's risk management objective is to reduce cash flow risk related to foreign denominated cash flows.

Air Canada has a target foreign currency derivative coverage of 70% on a rolling 18 month basis to manage its net U.S. dollar cash flow exposure described above utilizing the following risk management strategies:

- Holding U.S. dollar cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash, short and long-term investment balances as at December 31, 2025 amounted to \$920 million (US\$672 million) (\$805 million (US\$561 million) as at December 31, 2024) which are applied against the rolling 18 month net U.S. dollar cash flow exposure. In 2025, a loss of \$34 million (gain of \$64 million in 2024) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short and long-term investment balances held.
- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments. Based on the notional amount of currency derivatives outstanding at December 31, 2025, as further described below, approximately 74% of net U.S. cash outflows are hedged for 2026 and 37% for 2027, resulting in derivative coverage of 63% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 70% coverage over the next 18 months.



As at December 31, 2025, Air Canada had outstanding foreign currency options and swap agreements, settling in 2026 and 2027, to purchase at maturity \$8,913 million (US\$6,495 million) of U.S. dollars at a weighted average rate of \$1.3648 per US\$1.00 (2024 – \$9,812 million (US\$6,847 million) with settlements in 2025 and 2026 at a weighted average rate of \$1.3457 per US\$1.00).

Air Canada also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €487 million, GBP £240 million, JPY ¥10,185 million, and AUD \$22 million) which settle in 2026 and 2027 at weighted average rates of €1.1127, £1.3367, ¥0.0069, and AUD \$0.6749 per US\$1.00, respectively (as at December 31, 2024 – EUR €341 million, GBP £172 million, JPY ¥38,610 million, CNH ¥711 million and AUD \$242 million) with settlement in 2025 and 2026 at weighted average rates of €1.1267, £1.2897, ¥0.0071, CNH ¥0.1435 and AUD \$0.6810 per US\$1.00.

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at December 31, 2025 was \$243 million in favour of the counterparties (2024 – \$22 million in favour of Air Canada). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During 2025, a loss of \$207 million was recorded in Foreign exchange gain (loss) related to these derivatives (2024 – \$450 million gain). In 2025, foreign exchange derivative contracts cash settled with a net fair value of \$66 million in favour of Air Canada (2024 – \$265 million in favour of Air Canada).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Air Canada enters into both fixed and floating rate debt and also leases certain assets where the rental amount fluctuates based on changes in short-term interest rates. Air Canada manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to Air Canada. The cash and short-term investment portfolio which earns a floating rate of return is an economic hedge for a portion of the floating rate debt.

The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in Air Canada's capital structure and is based upon a long-term objective of 60% fixed and 40% floating but allows flexibility to adjust to prevailing market conditions. The ratio at December 31, 2025 is 84% fixed and 16% floating (84% and 16%, respectively as at December 31, 2024).

12. Accounting policies

Information on Air Canada's accounting policies is provided in Note 2 of Air Canada's audited consolidated financial statements and notes for 2025, including future changes in accounting policies for amendments to standards not yet effective.

Accounting standards and amendments issued but not yet effective

The following accounting standards and amendments to accounting standards issued by the IASB have not yet been adopted by Air Canada.

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements but carries forward many of the requirements from IAS 1. The standard introduces new defined subtotals to be presented in the consolidated statements of operations, disclosure of management-defined performance measures related to the income statement and requirements for grouping of information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with earlier adoption permitted. Air Canada will apply the standard effective January 1, 2027 and it will be applied retrospectively with restatement of the comparative period. IFRS 18 will modify the formatting of the consolidated statement of operations with the presentation of revenue and expenses under three categories (operating, investing and financing), therefore all items currently presented in the non-operating income (expense) section of the consolidated statement of operations will be impacted, in particular the presentation of foreign exchange gains and losses as it can relate to more than one category under the new standard. Air Canada is continuing to evaluate the impact of this standard on its consolidated financial statements.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The narrow scope amendments clarify classification guidance for financial assets with environmental, social and corporate governance features; and clarify the date on which a financial asset or financial liability is derecognized when using electronic payment systems. The amendments aim to address diversity in practice by specifying that receivables and payables settled electronically should only be derecognized when a corporation has transferred control of the cash and no longer retains settlement related risks, which may occur later than the point when a payment is initiated. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted. Air Canada is continuing to evaluate its electronic payment processes and the disclosures required under these amendments. No material impact is expected for Air Canada's consolidated statement of financial position as of the January 1, 2026 adoption date.



13. Critical accounting estimates and judgments

Critical accounting estimates are those estimates of management that are most important to the portrayal of Air Canada's financial condition and results of operations. They require management's most difficult, subjective or complex judgments, often because of the need to make estimates and judgments about the effect of matters that are inherently uncertain. Actual results could differ materially from those estimates and judgments.

Significant estimates and judgments made in the preparation of Air Canada's consolidated financial statements include, but are not limited to, the following areas.

Aeroplan Loyalty Program

Loyalty program accounting requires management to make several estimates including the Equivalent Ticket Value (ETV) of Aeroplan points issued and the breakage on Aeroplan points. The ETV of Aeroplan points issued is determined based on the value a passenger receives by redeeming points for a ticket rather than paying cash. This ETV is estimated with reference to historical Aeroplan redemptions as compared to equivalent ticket purchases after considering similar fare conditions, advance booking periods and other relevant factors including the rate per point paid by third parties. ETV estimates and assumptions are considered for updates at least annually. A change in the ETV rate is accounted for prospectively.

Breakage represents the estimated points that are not expected to be redeemed. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions or other circumstances that may affect future redemptions. Management uses statistical and simulation models to estimate breakage. Assumptions are reviewed for updates at least annually. A change in assumptions as to the number of points expected to be redeemed could have a significant impact on revenue in the year in which the change occurs.

As at December 31, 2025, the Aeroplan points deferred revenue balance was \$4,008 million. For the purposes of sensitivity analysis, a 1% change in the number of outstanding points estimated to be redeemed would result in an approximate impact of \$40 million on revenue with a corresponding adjustment to Aeroplan deferred revenue.

Passenger revenues - Breakage

Air Canada estimates the amount of advance ticket sales that will expire unused (breakage) and recognizes revenue at the scheduled date of travel. Breakage estimates and resulting amount of breakage revenues recorded are estimated based on historical ticket breakage patterns and other applicable factors such as ticket contract terms. Estimates of breakage may vary in future periods.

Impairment Considerations on Long-lived Assets

When required, an impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to dispose and its value in use. Fair value less costs to dispose may be calculated based upon a discounted cash flow analysis, which requires management to make a number of significant market participant assumptions including assumptions relating to cash flow projections, discount rates and future growth rates.

Depreciation and Amortization Period for Long-lived Assets

Air Canada makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current and future fair values of the assets, Air Canada's fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in jet fuel prices and other operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on aircraft with remaining useful lives greater than five years results in an increase of \$16 million to annual depreciation expense. For aircraft with shorter remaining useful lives, the residual values are not expected to change significantly.

Maintenance Provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates take into account current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred at the end of the lease and the amount of the provision is recorded in Aircraft maintenance expense in the period. The effect of any changes in estimates, including changes in discount rates, inflation assumptions, cost estimates or lease expiries, is recognized as an adjustment to the right-of-use asset.

Employee Future Benefits

The cost and related liabilities of Air Canada's pension, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions and estimates including discount rates and mortality assumptions. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty. Refer to Note 9 Pensions and other benefit liabilities of Air Canada's audited consolidated financial statements and notes for 2025 for additional information.



Assumptions

Management is required to make estimates about actuarial and financial assumptions to determine the cost and related liabilities of Air Canada's employee future benefits.

Discount Rate

The discount rate used to determine the pension obligation was determined by reference to market interest rates on corporate bonds rated "AA" or better with cash flows that approximate the timing and amount of expected benefit payments.

Future Increases in Compensation

Estimates surrounding assumptions of future increases in compensation are based upon the current compensation policies, Air Canada's long-range plans, labour and employment agreements and economic forecasts.

Mortality Assumptions

Mortality tables and improvement scales issued by the Canadian Institute of Actuaries (revised in 2014) were taken into account in selecting management's best estimate mortality assumption used to calculate the accrued benefit obligation as at December 31, 2025 and 2024.

The weighted average assumptions used to determine Air Canada's accrued benefit obligations and cost are as follows:

	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	4.70%	4.64%	4.70%	4.64%
Service cost for the year ended December 31	4.80%	4.65%	4.80%	4.65%
Accrued benefit obligation as at December 31	4.98%	4.70%	4.98%	4.70%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.75%	2.75%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.75%	Not applicable	Not applicable

Sensitivity Analysis

Sensitivity analysis is based on changing one assumption while holding all other assumptions constant. In practice, this may be unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position.

Sensitivity analysis on 2025 pension expense, net interest relating to pension benefit liabilities and pension obligation, based on different actuarial assumptions with respect to discount rate is set out below. The effects on each pension plan of a change in an assumption are weighted proportionately to the total plan obligation to determine the total impact for each assumption presented.

(Canadian dollars in millions)	0.25 Percentage Point	
	Decrease	Increase
Discount rate on obligation assumption		
Pension expense	\$ 20	\$ (19)
Net interest relating to pension benefit liabilities	12	(6)
Total	\$ 32	\$ (25)
Increase (decrease) in pension obligation	\$ 564	\$ (536)

The increase (decrease) in the pension obligation for a 0.25-percentage-point change in the discount rate relates to the gross amount of the pension liabilities and is before the impact of any change in plan assets. As at December 31, 2025, approximately 92% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk.

An increase of one year in life expectancy would increase the pension benefit obligation by \$422 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2025 and thereafter, unchanged from the 2024 assumption. A one-percentage-point increase in assumed health care trend rates would have increased the total of current service and interest costs by \$4 million and the obligation by \$74 million. A one-percentage-point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by \$4 million and the obligation by \$78 million.

A 0.25-percentage-point decrease in discount rate for other employee future benefits would have increased the total of current and interest costs by less than \$1 million and the obligation by \$35 million. A 0.25-percentage-point increase in discount rate would have decreased the total of current and interest costs by less than \$1 million and the obligation by \$33 million.



14. Off-balance sheet arrangements

Guarantees

Air Canada participates in fuel facility arrangements operated through nine Fuel Facility Corporations, and three aircraft de-icing service facilities, along with other airlines that contract for fuel and de-icing services at various major airports in Canada. These entities operate on a cost recovery basis. The aggregate debt of these entities that has not been consolidated by Air Canada under IFRS 10 Consolidated Financial Statements is approximately \$1,631 million as at December 31, 2025 (December 31, 2024 – \$1,425 million), which is Air Canada's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur among the other contracting airlines.

Air Canada views this loss potential as remote. Each contracting airline participating in these entities shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

Indemnification Agreements

In the ordinary course of Air Canada's business, Air Canada enters into a variety of agreements, such as real estate leases or operating agreements, aircraft financing or leasing agreements, technical service agreements, and director/officer contracts, and other commercial agreements, some of which may provide for indemnifications to counterparties that may require Air Canada to pay for costs and/or losses incurred by such counterparties. Air Canada cannot reasonably estimate the potential amount, if any, it could be required to pay under such indemnifications. Any such amount would also depend on the outcome of future events and conditions, which cannot be predicted. While certain agreements specify a maximum potential exposure, certain others do not specify a maximum amount or a limited period. Historically, Air Canada has not made any significant payments under these indemnifications.

Air Canada expects that it would be covered by insurance for most extra-contractual liabilities and certain contractual indemnities.

15. Related party transactions

At December 31, 2025, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements and sponsorship and management services for a number of post-retirement plans which are related parties. Refer to Notes 9 and 21 of Air Canada's audited consolidated financial statements and notes for 2025, for additional information on these plans.



16. Sensitivity of results

Air Canada's financial results are subject to many different internal and external factors which can have a significant impact on results of operations. The following table describes, on an indicative basis, the financial impact that changes in fuel prices and the value of the Canadian dollar would generally have had on Air Canada's past results of operations. An equivalent but opposite movement of the sensitivity factor in the table below would have generally resulted in a similar but opposite impact. These guidelines were derived from 2025 levels of activity and are based on management estimates. The impacts are not additive, do not reflect the interdependent relationship of the elements and may not be indicative of future trends or results which may vary significantly due to a wide range of factors many of which are beyond the control of Air Canada.

Key Variable	2026 Measure	Sensitivity Factor	Favourable/(Unfavourable)
			Estimated Operating Income Impact/ Pre-tax Income
(Canadian dollars in millions)			
Fuel			
Fuel – Jet fuel price (US\$/barrel) ⁽¹⁾	\$98	US\$1/barrel increase	\$ (47)
Fuel – Jet fuel price (C\$/litre) ⁽¹⁾	\$0.90	1% increase	\$ (47)
Currency Exchange			
C\$ to US\$	US\$1=C\$1.36	1 cent appreciation (i.e. from \$1.36 to \$1.35 per US\$)	
		Operating income ⁽²⁾	\$ 32
		Net interest expense	4
		Revaluation of long-term debt and lease liabilities, U.S. dollar cash, cash equivalents and short-term investments, and other long-term monetary items, net	59
		Remeasurement of outstanding currency derivatives	(65)
		Pre-tax income impact	\$ 30

(1) Excludes the impact of carrier surcharges and fuel hedging (if any).

(2) The operating income impact of currency exchange movements is before the impact of hedging activities, such as through the use of foreign currency derivatives and holding U.S. dollar cash reserves. The gains and losses related to these hedging activities are recorded in non-operating income (expense) on Air Canada's consolidated statement of operations.

17. Enterprise risk management and governance

Overview

The management of opportunities and risks is an integral part of Air Canada's business processes. Strategic decisions are made by the executive team with consideration of risk implications to the business and its stakeholders. Risks which may be material to Air Canada are identified and monitored on an on-going basis through Air Canada's Enterprise Risk Management (ERM) program which provides insight on a regular basis to the Board of Directors through the Board's Audit, Finance and Risk Committee.

Board Oversight

Risk management is an integral part of Air Canada's corporate governance. The Board of Directors has established board committees (Audit, Finance and Risk Committee; Safety, Health, Environment and Security Committee; Governance and Nominating Committee; and Human Resources, Compensation and Pension Committee) to assist in the oversight responsibilities.

Risk information is reviewed by the Board or the relevant Board committee on a quarterly basis. In addition, Board committees review and discuss with management, on a regular basis, all key enterprise risk exposures based on their respective terms of reference set out in committee charters and the steps taken that seek to monitor/control and mitigate those exposures to satisfy themselves as to the effective risk management of the individual risks. These processes seek to appropriately mitigate rather than eliminate risk.

The Audit, Finance and Risk Committee is responsible for the oversight of the ERM program and the work carried out by the Corporate Audit and Advisory department, as stated in its committee charter.

ERM risk reporting is maintained by the Corporate Audit and Advisory department, which provides an independent update as to the state of each enterprise risk on a quarterly basis.

Risk Management Framework and Structure

Air Canada's enterprise risk management framework has been developed to support governance and oversight over Air Canada's most important strategic risks and is aligned to the ISO 31000 standard and COSO ERM 2017 framework.

Air Canada identifies and assesses enterprise-level risks and classifies them in the following categories: Safety, Regulatory, Financial, Commercial, Operational and Reputational. These risk categories and the risks assigned to each category are reviewed quarterly and reported to the Audit, Finance, and Risk Committee.

Sound business practices and ethical behaviour are also fundamental to Air Canada's risk governance culture. Air Canada has in place (and updates, as required) a Code of conduct, which sets out guiding principles and ethical standards that apply to all Air Canada corporate activities. A confidential, anonymous reporting process and ethics committee are also some of the means in place to oversee adherence to the Code of conduct.

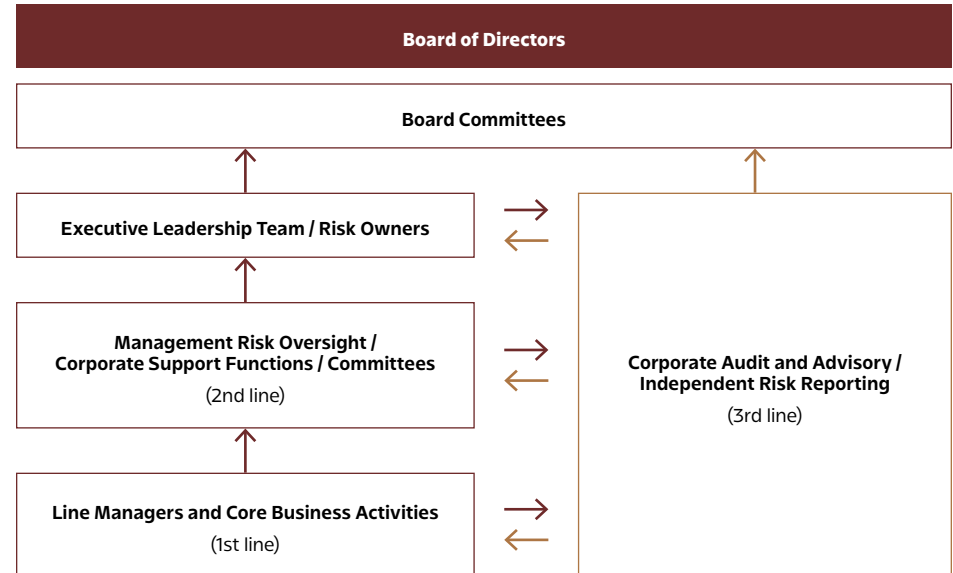
Air Canada's risk management structure is aligned with the "Three Lines Model" approach to risk management:

1st line - Business functions are expected to integrate risk management when performing their day-to-day core commercial and operational activities.

2nd line - Support functions establish policies, provide guidance and expertise, and risk oversight (e.g. Safety, Security, Legal and Compliance, Finance/Treasury/Tax, Sourcing and Procurement, Government Affairs, People, Environment, IT Operations and Cybersecurity).

3rd line - Corporate Audit and Advisory department provides an independent and objective perspective on Air Canada's governance, risk management practices and controls.

Air Canada's ERM and governance structure is as follows:



Although the risk management framework described in this section is aligned with industry best practices, there can be no assurance that it will be sufficient to prevent the occurrence of events that could have a material adverse effect on our financial position, financial performance, cash flows, business or reputation.



18. Risk factors

Alongside the other information provided in this report, the material risks described below should be read carefully when evaluating Air Canada's business as well as the forward-looking statements contained in this report and other statements Air Canada may make from time to time. Any of these risks, individually or in combination, could materially and adversely affect Air Canada's business, results from operations, financial condition as well as the outcome of matters as to which forward-looking statements are made. Should a risk materialize, circumstances at the time may also cause that risk to have a different impact than that which might otherwise have been expected. These risks may not be the only ones faced by Air Canada. Other risks of which Air Canada is not aware or which Air Canada deems not to be material may surface and have a material and adverse impact on Air Canada, its business, results from operations, financial condition and the outcome of matters as to which forward-looking statements are made.

Economic and geopolitical conditions – Changes in economic and geopolitical conditions could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada's results from operations are sensitive to and may be significantly impacted by economic and geopolitical conditions, which may also impact overall demand for air transportation or to or from certain destinations, the ability to operate to destinations or the viability of routes, global commercial activity, operating costs and revenues, fuel cost and availability, foreign exchange costs, tax costs and the costs and availability of capital and supplies. Statements or actions by governments relating to the imposition of (or threats to impose) tariffs on Canadian exports or imports, as well as reactions from consumers and other customers of Air Canada, including travel boycotts to Air Canada destinations, may pose significant risks to Air Canada, as well as the Canadian economy, and may undermine investor confidence, and disrupt the highly integrated supply chains which drive economic activity in Canada or on which Air Canada relies, negatively impacting trade, economic stability and Air Canada's access to supplies or costs. Any uncertainty created by these statements or actions may also lead to a chilling effect on economic growth as businesses, investors and consumers adopt a wait-and-see approach. Any prolonged or significant impact arising from economic and

geopolitical conditions, including in relation to conflicts in the Middle East, or Russia and Ukraine, South America, or other geopolitical conflicts, security risks or civil unrest, as well as related responses of various governments and authorities (or lack thereof), infectious diseases, weakness of the Canadian, U.S. or world economies, inflation, disputes, changes or uncertainty relating to political, economic, fiscal or trading policies or relationships, within, over or between jurisdictions where Air Canada operates flights or does business, or threatened or actual conflicts or outbreaks of hostilities in or adjacent to regions Air Canada serves or over which it operates flights or does business could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Operating results – Air Canada may sustain significant losses and not be able to successfully achieve and/or sustain positive net profitability or realize the objectives of any or all its initiatives.

A variety of factors, including economic conditions, delays in scheduled aircraft or equipment deliveries and other factors described in this report, may result in Air Canada incurring significant losses or adversely impact Air Canada's operating and financial results. The airline industry has historically been characterized by low profit margins and high fixed costs, and the costs of operating a flight do not vary significantly with the number of passengers carried. Therefore, a change in the number of passengers, fare pricing, margins or traffic mix, or increased costs, could have a significant impact on Air Canada's operating and financial results. Due to the competitive nature of the airline industry and customer sensitivity to travel costs, Air Canada may not be able to pass on cost increases to its customers. Despite a focus on improving resiliency to downturns in its business as well as ongoing and planned strategic and business initiatives, Air Canada may not be able to successfully achieve and/or sustain positive net profitability or realize its objectives, including those that seek to increase revenues, decrease costs, improve margins, profitably deploy additional capacity, generate sufficient returns on its capital expenditures or offset or mitigate risks facing Air Canada, including those described in this report.

Fares and market demand – Fluctuations in fares and demand for air travel or to or from certain destinations could materially and adversely impact Air Canada, its business, results from operations and financial condition.

Air Canada fares and passenger demand, like those of other airlines, have fluctuated significantly in the past and may fluctuate significantly in the future. Air Canada cannot predict market conditions and the fares that Air Canada may be able to charge. Customer expectations and perception can change rapidly due to many factors, and the demand for various products or alternative modes of transportation, may impact revenues. Travel, especially leisure travel, is a discretionary consumer expense and is price sensitive. Demand for business and premium travel is also impacted by a variety of factors such as economic and geopolitical conditions. Many factors such as economic conditions, geopolitical instability, infectious diseases, and concerns about the environmental impacts of air travel, could each have the effect of reducing demand for air travel and fares and could materially and adversely impact Air Canada, its business, results from operations and financial condition.

Competition – Air Canada operates in a highly competitive environment and faces increasing competition in Canada, North America and internationally.

Air Canada operates within a highly competitive industry and continuously encounters substantial price competition. Carriers, including low-cost, ultra-low-cost, domestic, U.S. and foreign carriers, have entered, announced their intention to enter or continue to enter or expand into markets Air Canada operates in or plans to operate in, including domestic, U.S. transborder, international and leisure-oriented markets, as well as cargo transportation markets.

Canadian, U.S. and foreign carriers against which Air Canada competes may undergo (and some have undergone) substantial reorganizations (including by way of merger with or acquisition by another carrier or entity), creating greater access to capital, reduced levels of indebtedness, lower operating costs and other competitive advantages. Consolidation within the airline industry and carriers increasingly entering into integrated commercial cooperation arrangements (including with multi-modal operators) may also strengthen the ability of carriers to compete. State-owned, controlled or sponsored airlines may benefit from



competitive advantages, including through preferential access to airport infrastructure, favorable regulatory environments, market protection policies, and the ability to leverage political influence for advantageous bilateral air service agreements.

The prevalence of internet travel websites and other travel product distribution channels has also resulted in a substantial increase in new routings and discounted and promotional fares initiated by Air Canada's competitors. Competitors also continue to pursue commissions and incentive actions and, in many cases, increase these payments. Air Canada's ability to reduce its fares in order to effectively compete is dependent on its ability to achieve acceptable operating margins and may be limited by applicable laws or government policies to encourage competition.

Increased competition, from existing or new competitors, including competitors entering into new or expanded joint ventures and other arrangements, or using disruptive distribution, business models or technologies, and other competitive actions, or benefitting from foreign subsidies, government aid or other advantages not available to Air Canada, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Dependence on technology – Air Canada relies heavily on technology to operate its business and any inadequacy, failure or security breach could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada relies heavily on technology, including to operate its business, interact with customers, increase its revenues and reduce its costs. Air Canada's technology systems include those relating to its websites, mobile application, passenger sales and services, cargo services, airport customer services, flight operations, loyalty program, communications, distribution, and other business activities. Air Canada's websites and other technology systems must efficiently accommodate a high volume of traffic and must securely and effectively process and deliver information critical to Air Canada's business and operations. Air Canada's business also requires the secure collection, processing, storage and effective governance of sensitive data, including personal information of its passengers, Aeroplan Members, employees, business partners and others and Air Canada relies on third party service providers to support and protect its structure and data, and host or otherwise process personal information.

Artificial intelligence and machine learning may create legal, operational, and ethical risks, including bias, errors, data leaks, and intellectual property issues. Competitors may advance faster with artificial intelligence, impacting our position. Regulatory changes will demand continuous compliance efforts. Appropriate development, implementation and governance of artificial intelligence systems is crucial, including to ensure safety, enhance operational efficiency, achieve business objectives and maintain public trust. The effective, reliable and secure operation and governance of the networks and systems (including third party systems) on which sensitive information is stored, transmitted and processed is critical to Air Canada's business.

The technology systems Air Canada relies on also depend on the performance of its many suppliers and Air Canada has no direct oversight over their security ecosystem and practices. These suppliers' performance is in turn dependent upon their respective technology ecosystems.

Technology systems are vulnerable to a variety of sources of failures, interruption or misuse, including by reason of human error, third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, misuse, unauthorized or fraudulent users (including cyber-attacks, social engineering/phishing, use of AI techniques such as deepfakes, malware, ransomware, computer viruses and the like), and other operational and security issues.

Like other entities operating in today's digital business environment, we are subject to threats to the security of our networks, systems and data as well as those of our suppliers. There is a growing number of sophisticated actors, including hackers, organized criminals, state-sponsored actors and other parties, and information security attacks have continued to grow in complexity. The emergence of new technologies, such as artificial, as well as the growing sophistication of social engineering techniques, continues to grow these threats. The magnitude and frequency of information security breaches and their potential for damage has also continued to grow.

In light of the evolving nature and sophistication of information security threats, our information security systems and controls must continuously adapt and require continuous monitoring. Despite our efforts, and given the complexity and scale of our business, network infrastructure, technology and IT supporting systems, as well as our reliance on third party service providers, there can be no assurance that our

information security systems and controls will be effective, and we might not detect a breach for a long time, if at all.

We and our third-party service providers have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future. Responses to these cybersecurity incidents may not be sufficient to prevent or mitigate their potential adverse impacts, which may be material. As cybersecurity incidents become more frequent, intense and sophisticated, the costs of proactive defense, response and other measures are increasing. Any technology system failure, degradation, interruption, misuse or fraudulent use, security breach, or failure to comply with applicable confidentiality, privacy, security or other related obligations, whether at Air Canada or a third party on which Air Canada or its suppliers rely, could adversely affect Air Canada, including by damaging its reputation and business relationships and exposing Air Canada to litigation, claims for contract breach, fines, sanctions and/or remediation costs, any of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Interruptions or disruptions in service – Interruptions or disruptions in service could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada's business is significantly dependent upon its ability to operate without interruption to or from a number of airports, including its main hubs at Toronto, Montréal, and Vancouver. Delays or disruptions in service may arise from a variety of factors, including the performance of airline industry participants on which Air Canada's operations are dependent (including airports, security, customs, air navigation and other participants or services), geopolitical conditions, security issues, technology failures, breaches or other incidents, weather conditions, capacity constraints, labour shortages or conflicts in respect of personnel not employed by Air Canada such as airport workers, baggage handlers, air traffic controllers, security personnel, immigration and customs personnel and others supporting airport-related operations, infectious diseases, public health restrictions or other factors beyond the control of Air Canada. Any of these could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Interruptions and disruptions in service may be caused by, and the demand and cost of air travel may also be adversely impacted by, environmental conditions (which are also



being driven by climate change which may also increase the frequency, duration and intensity of severe weather events), volcanic eruptions, floods or other natural phenomena, as well as those arising from anthropogenic sources. Such events, including on the ground and at altitude (including turbulence events), or impacting aircraft, airports or destinations served or flight routes used by Air Canada may impact the viability or cost of flying to such destinations, cause interruptions and disruptions in service, increase Air Canada's costs or adversely impact demand for air travel, any of which could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Key supplies, suppliers, facilities and infrastructure –

Air Canada's failure or inability to source certain goods and services from key suppliers, including on favourable terms and on a timely basis could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada is dependent upon its ability to source, from ethical and responsible suppliers, on favourable terms and costs, and without disruption, sufficient quantities of equipment, goods and services of desirable quality, in a timely manner or within planned timeframes, required for Air Canada's business or operations, such as fuel, aircraft and related parts, catering, airport services (including customs, security services and sufficient infrastructure capacity to support demand and operating requirements), de-icing services, airport slots, aircraft maintenance services, cargo handling services and facilities, and information technology systems and services. Like other airlines, we are dependent on the high quality and stable engineering design, manufacturing, availability, timely certification and maintenance of aircraft, as well as related parts and other products we purchase, and issues that arise may cause these to be unavailable or restricted, and may result in operational disruptions, higher costs, and adversely affecting our business and financial results.

In certain cases, Air Canada may only be able to source equipment, goods and services from a limited number of suppliers or lessors (or from sole source suppliers) and the transition to new or alternative suppliers, which may be necessitated by reason of such suppliers increasing their rates or by their failure, refusal or inability to deliver or perform, may not be possible or may take a significant amount of time or require significant resources. A limited number of suppliers

may also result in reduced competition and potentially higher prices than if the supplier base was less concentrated.

Air Canada needs sufficient airport facilities, such as gates, slots, counters, and control areas, to maintain and expand its flight schedule. Increasing airport congestion may limit our ability to offer new services, given operating constraints and existing infrastructures. Any restrictions on adding or maintaining needed facilities could adversely affect our business and financial results.

In addition, sanctions, tariffs or the threat of tariffs can disrupt supply chains, increase prices and create volatility and uncertainty. A failure, refusal, delay or inability of a supplier to supply Air Canada with goods and services of desirable quality on terms and pricing and within timeframes acceptable to Air Canada may arise as a result of a wide range of causes beyond Air Canada's control. Global supply chains have continued to be less resilient, less elastic, and less efficient, including by reason of labour shortages, access to raw materials, economic and geopolitical conditions and transportation logistics. These factors create an uncertain and continually shifting landscape which has and may continue to impact Air Canada and its suppliers.

Any failure or the inability of Air Canada to successfully source goods and services of desirable quality on terms and pricing and within the timeframes acceptable to Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Labour costs and labour relations – Air Canada may not be able to maintain labour costs at appropriate levels or secure labour agreements that permit it to successfully pursue its strategic initiatives. There can be no assurance that collective bargaining agreements will be renewed without labour conflicts and/or disruptions.

Labour costs constitute one of Air Canada's largest operating cost items. There can be no assurance that Air Canada will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial condition. Most of Air Canada's employees are unionized. Collective agreements with certain unions will expire in 2026 and in following years, and Air Canada will be engaging in bargaining with these unions. Any future agreements or outcomes of negotiations or arbitrations, including in relation to wages or other labour costs or work rules, may result in increased labour costs or other charges, or terms

and conditions restricting or reducing Air Canada's ability to sustain its business objectives or pursue its strategic initiatives, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

There can be no assurance that collective agreements will be further renewed, including on terms consistent with Air Canada's expectations or comparable to its competitors' labour agreements, without labour conflict or action or that there will not otherwise be any labour conflict or action that could also lead to a degradation, interruption or stoppage in Air Canada's service or otherwise adversely affect the ability of Air Canada to execute on its business plans or operate its business, either of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

In respect of the unions for Canadian-based employees, no strikes or lockouts may lawfully occur following the term of the collective agreements unless a number of pre-conditions prescribed by the Canada Labour Code have been satisfied.

Any labour disruption or work stoppage by any of the unionized work groups of Jazz or other airlines operating flights on behalf of Air Canada, or other key suppliers, or of other parties with which Air Canada conducts business or relies on could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, labour conflicts at Star Alliance® partners or involving the operations of key airports could result in lower demand for connecting traffic with Air Canada, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Strategic, business, technology and other important initiatives – A delay or failure to identify and devise, invest in and implement certain important initiatives could have a material impact on Air Canada, its business, results from operations and financial condition.

In order to operate its business, achieve its goals and remain competitive, Air Canada continually seeks to identify and devise, invest in, implement and pursue strategic, business, technology and other important initiatives, including to source aircraft, participate in the leisure or lower-cost market, enter into or expand joint venture arrangements, address climate change, enhance revenues, reduce costs, improve business processes, implement new technologies (including artificial



intelligence), expand network and capacity, and initiatives seeking to improve and ensure a consistently high-quality customer service experience. Strategic initiatives, including their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond Air Canada's control. Such factors include the need to seek legal or regulatory approvals, the performance of third parties (including suppliers, their products and services), their integration into Air Canada's other activities and processes as well as the adoption and acceptance of these initiatives including by Air Canada's customers, suppliers and personnel. A delay or a failure to sufficiently and successfully identify and devise, invest in or implement any strategic or important initiative could adversely affect Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Fuel costs – Significant fluctuations in fuel prices could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Fuel costs constitute one of Air Canada's largest operating cost items. Fuel prices fluctuate widely depending on many factors, including international market conditions, geopolitical events, jet fuel supply and refining costs, carbon pricing, or other climate change related regulations, taxes, levies or other measures, and the Canada/U.S. dollar exchange rate. The global jet fuel market is highly volatile due to geopolitical tensions, economic factors, and other factors, which may impact the price and Air Canada's ability to source jet fuel. Air Canada cannot accurately predict the future price of fuel and it may not be able to sufficiently, or may not, hedge the risk associated with fluctuations in fuel prices. Due to the competitive nature of the airline industry, Air Canada may not be able to pass on increases in fuel prices to its customers by increasing its pricing.

Significant fluctuations in fuel prices could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Financial leverage – Air Canada has a significant amount of financial indebtedness.

Air Canada has a significant amount of financial indebtedness from fixed obligations, including substantial obligations under aircraft leases, aircraft purchases and other financings. While Air Canada actively seeks to manage its indebtedness, it may incur greater levels of indebtedness than currently exist or are planned.

The amount of indebtedness that Air Canada has and which it may incur in the future could have a material adverse effect on Air Canada. The ability of Air Canada to make scheduled payments under its indebtedness may depend on, among other things, its future operating performance and its ability to refinance its indebtedness in a timely manner and on acceptable terms, if necessary. Air Canada incurs a significant proportion of its indebtedness in foreign currencies, primarily in U.S. dollars, and as a result, future debt servicing repayments are subject to foreign exchange risk. There can be no assurance that Air Canada will be able to generate sufficient cash from its operations to satisfy its debts, lease and other obligations and continue to pursue capital expenditures, and other business initiatives or strategic plans. Each of these factors is, to a large extent, subject to geopolitical, economic, financial, competitive, regulatory, operational and other factors, many of which are beyond Air Canada's control.

Need for capital and liquidity – Air Canada may not be able to obtain sufficient funds in a timely way and on acceptable terms to provide adequate liquidity and to finance necessary operating and capital expenditures.

Air Canada's liquidity levels may be adversely impacted by risks identified in this report, including geopolitical, economic and public health conditions, foreign exchange rates, increased competition, volatile fuel prices, labour issues, and contractual covenants. As part of Air Canada's efforts to manage risk and to support its business operations and strategy, significant liquidity and significant ongoing operating and capital expenditures are required.

Air Canada's level of indebtedness, as well as market conditions and the availability of assets as collateral for loans or other indebtedness, may make it difficult for Air Canada to raise additional capital if needed to meet its liquidity needs on acceptable terms, or at all.

A major decline in the market price of Air Canada's securities, including a major decline in capital markets in general, a downgrade in Air Canada's credit ratings, differences between Air Canada's actual or anticipated financial results and the published expectations of financial analysts, and differences between the estimated and available value of Air Canada's unencumbered assets, as well as events affecting its business or operating environment, may negatively impact Air Canada's ability to raise capital, issue debt and borrow on acceptable terms.

There can be no assurance that Air Canada will continue to maintain sufficient liquidity, whether from operations or by obtaining funds on terms acceptable to Air Canada, to finance the operating and capital expenditures necessary to support its business strategy and manage any challenges.

Regional carrier service– The failure by a regional carrier to fulfill its obligations to Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada enhances its network through agreements with certain airlines such as Jazz which operate flights on behalf of Air Canada. Pursuant to the terms of the Jazz CPA, Air Canada pays Jazz a number of fees, some of which are fixed and others that are determined based upon certain costs incurred by Jazz. Air Canada also reimburses Jazz for certain pass-through costs incurred by Jazz (or arranges to provide the related supplies to Jazz), such as fuel costs, navigation fees, landing fees and terminal fees. In addition, the Jazz CPA requires that Jazz maintain a minimum fleet size and contains a minimum average daily utilization guarantee, which requires Air Canada to use Jazz for that amount of flying. Significant increases in Jazz's costs, the failure by Jazz to adequately fulfill its obligations under the Jazz CPA, factors that may reduce the utilization of the Jazz fleet, including economic or market downturns, and unexpected interruptions or cessation of Jazz's services, as well as similar circumstances relating to other airlines from whom Air Canada may source regional capacity, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Personnel – Air Canada is dependent on key employees and having sufficient personnel and could be materially and adversely affected by a shortfall or substantial turnover.

Air Canada is dependent on its ability to attract and retain a variety of employees, including senior leadership, managers, airline flight, technology and operations personnel and other key employees, including for specialized technical roles, having the necessary industry experience, qualifications and knowledge in order to execute its business plan and operate its business. If Air Canada were to experience a shortfall or a substantial turnover in its key employees (including as a result of the competitive labour market), Air Canada, its business, results from operations and financial condition could be materially and adversely affected.



Infectious diseases – Infectious diseases could impact passenger demand for air travel.

Outbreaks or the threat of outbreaks of viruses or other contagions or infectious diseases, including an epidemic or a pandemic such as COVID-19, influenza, measles, Ebola, other disease outbreaks or health threats, as well as any government actions, or travel or other advisories relating to same, whether domestic or international or whether relating to Canadian cities or regions or other cities, regions or countries, could have a material adverse effect on demand for air travel or to or from certain destinations and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Regulatory matters– Air Canada is subject to extensive and continually evolving domestic and international legal, regulatory and administrative controls and oversight.

Air Canada and the airline industry are subject to extensive and continually evolving domestic and international legal, regulatory and administrative controls and oversight, including in relation to taxes, charges, airport fees and operations, route rights, overflight, airport slots, aircraft operations and maintenance, security, air passenger and consumer protection regulations, public health and safety, accessibility of transportation, human rights flight crew and other labour rules, privacy, data security, marketing and advertising, licensing, competition, joint ventures, partnerships, pensions, environment (including in relation to fuel management, pollution, climate change, greenhouse gas emissions and noise levels), customs, immigration, foreign exchange controls, repatriation of funds and, in some measure, pricing.

Air Canada is subject to significant and continually evolving tax laws, regulations, administrative guidance, interpretations, and treaties which apply to its operations in various jurisdictions throughout the world. For example, a significant majority of countries in the Organisation for Economic Co-operation and Development's (OECD) Inclusive Framework approved a framework that imposes a global minimum tax rate of 15%. Canada has enacted legislation to implement it and other jurisdictions that Air Canada operates to have also introduced similar legislation. Air Canada cannot predict whether, or the manner in which, proposed domestic and international laws (including in respect of the work of the OECD Inclusive Framework), regulations and administrative requirements or similar initiatives will ultimately be implemented or their impact on Air Canada.

Air Canada has and continues to establish targets, make commitments and assess the impact regarding climate change, and related initiatives, plans and proposals that Air Canada and other stakeholders (including government, regulatory and other bodies) are pursuing in relation to climate change and carbon emissions. The achievement of our commitments and targets depends on many factors, including the combined actions of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies. In particular, our 2030 carbon emission-related targets and our related 2050 aspiration are ambitious and heavily dependent on new technologies, renewable energies and the availability of a sufficient supply of sustainable aviation fuels, which continues to present serious challenges. In addition, Air Canada has incurred, and expects to continue to incur, costs to achieve its goal of net-zero carbon emissions and to comply with environmental sustainability legislation and regulation and other standards and accords. The precise nature of future binding or non-binding legislation, regulation, standards and accords, on which local and international stakeholders are increasingly focusing, cannot be predicted with any degree of certainty, nor can their financial, operational or other impact. There can be no assurance of the extent to which any of our climate goals will be achieved or that any future investments that we make in furtherance of achieving our climate goals will produce the expected results or meet increasing stakeholder environmental, social and governance expectations. Moreover, future events could lead Air Canada to prioritize other nearer-term interests over progressing toward our current climate goals based on business strategy, economic, regulatory and social factors, and potential pressure from investors, activist groups or other stakeholders. If we are unable to meet or properly report on our progress toward achieving our climate change goals and commitments, we could face adverse publicity and reactions from investors, customers, advocacy groups or other stakeholders, which could result in reputational harm or other adverse effects to Air Canada.

While Air Canada seeks to comply with all applicable laws, regulations and administrative requirements, compliance may involve significant judgment in interpreting them. Furthermore, interpretations as well as the application and enforcement of such requirements may evolve due to numerous factors, including decisions or enforcement actions by courts, regulators, administrative and other bodies. Compliance (including failure to comply) with current or future domestic and international laws, regulations

and administrative requirements, including potentially inconsistent or conflicting laws or regulations, or laws or regulations that disproportionately apply to Canadian airlines or Air Canada specifically, may impose significant costs (including taxes, fines, penalties and/or levies), impediments and/or competitive disadvantages and a failure to comply may result in other claims against Air Canada including class actions. There cannot be any assurance that current or future laws, regulations, rules, orders, policies and administrative requirements will not materially and adversely affect Air Canada, its business, results from operations and financial condition.

Terrorist attacks and security measures – Terrorist attacks and related consequences could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

The potential for terrorist attacks and terrorist activity causes concern and uncertainty in the minds of the travelling public. The occurrence of a terrorist attack, an attempted attack or the perceived threat of one (whether or not involving Air Canada or another carrier, or involving Air Canada's destinations, or other destinations or regions) and restrictive security measures, such as those relating to the content of carry-on baggage, passenger identification document requirements and passenger screening procedures, could have a material adverse effect on passenger demand for air travel or to or from certain destinations and on the number of passengers travelling on Air Canada's flights. It could also lead to a substantial increase in insurance, security and other costs. Any resulting reduction in revenues and/or increases in costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Aeroplan loyalty program – Loss of redemption or accrual partners, changes to accrual or redemption settlement rates, increased redemption rates of loyalty points, or disruptions or other interruptions of services affecting the Aeroplan loyalty program could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada offers its customers who are Aeroplan Members the opportunity to earn Aeroplan points, which management believes is a significant factor in many customers' decision to travel with Air Canada and contributes to building customer loyalty. The success of the Aeroplan program is dependent on attracting new and retaining current members and on maintaining sufficient accumulation and redemption partners. Increases in redemption rates for outstanding Aeroplan



points, failures to adequately operate the Aeroplan program, reductions in the prevailing interchange rates in Canada or the U.S., additional payment card regulation on fees and charges, changes in payments systems, or interruptions or disruptions of Aeroplan program services, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Casualty losses – Air Canada's business makes it subject to large liability claims for serious personal injury or death arising out of accidents or disasters.

Due to the nature of its core business, Air Canada may be subject to liability claims arising out of accidents or disasters involving aircraft on which Air Canada's customers are travelling or involving aircraft of other carriers maintained or otherwise serviced by Air Canada or through third parties providing services to Air Canada, including claims for serious personal injury or death. Any such accident or disaster may significantly harm Air Canada's reputation for safety, which would have a material adverse effect on Air Canada, its business, results from operations and financial condition. There can be no assurance that Air Canada's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material.

Accidents and disasters may occur despite all appropriate measures being taken, and as a result of a variety of factors beyond Air Canada's control including acts of terrorism and sabotage, security breaches, equipment failures, human error, severe weather, lightning strikes and other natural phenomenon, bird strikes as well as the increasing prevalence of unmanned aerial vehicles. Additionally, any accident, catastrophe, or incident involving Air Canada, its regional carriers, or codeshare partners could also lead to operational restrictions, such as voluntary or mandatory aircraft groundings.

Star Alliance and strategic and commercial arrangements – Departure of a key member from Star Alliance or the failure by a key member to meet its obligations, including under joint venture arrangements, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

The strategic and commercial arrangements with Star Alliance and other airlines, including Lufthansa AG, United Airlines, Air China and Emirates, provide Air Canada with important benefits, including codesharing, efficient connections and transfers, reciprocal participation in frequent flyer programs

and use of airport lounges from the other members. Should a key member leave Star Alliance or should Star Alliance or other airlines fail to meet its obligations toward Air Canada, or if Air Canada's strategic and commercial arrangements were to be negatively impacted by changes in regulations, or the interpretation, application, or enforcement of such regulations, Air Canada, its business, results from operations and financial condition could be materially and adversely affected.

Air Canada's brand – The failure to preserve or grow the value of Air Canada's brand could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada believes that its success is dependent on the value of its brand and on Air Canada's ability to preserve, grow and leverage that value. The Air Canada brand is recognized throughout the world, and Air Canada has received high ratings in external brand value studies, based in part on consumer perceptions on a variety of subjective qualities. Air Canada believes it has and continues to build an excellent reputation globally for the safety and quality of its services, and for the delivery of a consistently positive passenger experience. Air Canada's reputation and brand could be damaged if they are exposed to significant adverse publicity including through social media or the increased use of artificial intelligence. Adverse publicity, whether justified or not, can rapidly spread through social or digital media and broadly without context, making it increasingly difficult for us to effectively respond. To the extent we are subject to, or unable to respond timely and appropriately to adverse publicity, our brand and reputation may be damaged.

Any failure to preserve or grow Air Canada's brand, including by reason of the conduct of Air Canada or any of its business partners, suppliers or other third parties, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Legal proceedings – Air Canada may be subject to legal proceedings which could have a material adverse impact.

In the course of conducting its business, Air Canada is subject to various claims and other legal proceedings (such as class action claims,) seeking monetary or other relief, including with respect to contractual arrangements and applicable laws and regulations. The final outcome of these matters may result in a judgment against us or in the payment of a settlement, which could have a material adverse impact.

Any future claims or litigation could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Foreign exchange – A significant deterioration of the Canadian dollar relative to the U.S. dollar could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada's financial results are sensitive to the fluctuating value of the Canadian dollar. Air Canada incurs significant expenses in U.S. dollars for items such as fuel, aircraft purchases, aircraft leasing and maintenance, airport charges, ground package costs, sales and distribution costs, interest and debt servicing payments, while a substantial portion of its revenues are generated in Canadian dollars. In addition, Air Canada may not be able to sufficiently, or may not, hedge the risk associated with fluctuations in exchange rates. A significant deterioration of the Canadian dollar relative to the U.S. dollar or other foreign currencies would increase the costs of Air Canada relative to its U.S. or other foreign competitors. Any of these factors could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Limitations due to restrictive covenants – Covenants in agreements that Air Canada has entered into or may enter into may affect or limit the manner in which Air Canada operates its business.

Some of the financing and other major agreements to which Air Canada is a party contain, and in the future may contain, restrictive, financial (including in relation to asset valuations, liquidity, fixed charge coverage ratio) and other covenants that affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Air Canada may structure or operate its business, including by reducing Air Canada's liquidity, limiting Air Canada's ability to incur indebtedness, create liens, sell assets, pay dividends, make capital expenditures, and engage in acquisitions, mergers or restructurings or a change of control. Future financing and other significant agreements may be subject to similar or stricter covenants that limit Air Canada's operating and financial flexibility, which could materially and adversely affect Air Canada's ability to operate its business and its profitability.

A failure by Air Canada to comply with its contractual obligations (including restrictive, financial and other covenants) or to pay its indebtedness and fixed costs could



result in a variety of material adverse consequences, including the acceleration of its indebtedness, the withholding of credit card proceeds by the credit card service providers and the exercise of remedies by its creditors, lessors or other co-contracting parties, including the foreclosure of Air Canada assets that secure obligations under secured financing agreements. Defaults could also trigger additional defaults under other indebtedness or agreements. In such a situation, Air Canada may not be able to repay the accelerated indebtedness or fulfill its obligations under certain contracts, make required aircraft lease payments or otherwise cover its fixed costs.

Availability of insurance coverage and increased insurance costs – Increases in insurance costs or reduction in insurance coverage could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

The insurance industry in general, including the aviation insurance industry, has been experiencing increasing losses and decreased insurer profitability in recent years, resulting in reduced capacity levels and premium increases. These conditions may adversely affect some of Air Canada's existing insurance carriers or Air Canada's ability to obtain future insurance coverage (including war risk insurance coverage), including desired levels of coverage or on terms acceptable to Air Canada. To the extent that Air Canada's existing insurance carriers are unable or unwilling to provide required coverage (and in the absence of measures by the Government of Canada to provide the required coverage), Air Canada's insurance costs may increase further and may result in Air Canada being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Pension plans – Failure or inability by Air Canada to make required cash contributions to its pension plans could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans and supplemental pension plans.

Canadian federal pension legislation requires that the funded status of defined benefit registered pension plans be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination). Canadian federal pension legislation prescribes the minimum contributions that plan sponsors must make to their defined benefit registered pension plans. Current service contributions are required to be paid monthly, except to the extent they are funded through the surplus in such plan (subject to applicable plan rules and legislation). Air Canada's pension funding obligations (including projected funding obligations) may vary significantly based on a wide variety of factors, including the plan's solvency financial position, regulatory developments, plan demographics, changes to plan provisions, the success of its pension asset investment strategies, assumptions and methods used and changes in economic conditions (mainly the return on fund assets and changes in interest rates) and other factors. Air Canada has taken significant steps to reduce its pension plan risk, and its domestic defined benefit registered pension plans are in a surplus position, but there can be no assurance that such a risk will not materialize and adversely impact Air Canada's ability to meet its funding obligations, which in turn could have a material adverse effect on Air Canada, its business, results from operations and financial condition. See section 8.6 "Pension Funding Obligations" of this MD&A for additional information.



19. Controls and procedures

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within Air Canada have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer (CEO), its Chief Financial Officer (CFO) and its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of Air Canada's CEO and CFO, to provide reasonable assurance regarding the reliability of Air Canada's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

Air Canada will file certifications, signed by its CEO and CFO, with the Canadian Securities Administrators (CSA) upon filing of Air Canada's Annual Information Form. In those filings, Air Canada's CEO and CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Air Canada's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. Air Canada's CEO and CFO also certify the appropriateness of the financial disclosures in Air Canada's interim filings with securities regulators. In those interim filings, Air Canada's CEO and CFO also certify the design of Air Canada's disclosure controls and procedures and the design of internal controls over financial reporting.

Air Canada's Audit, Finance and Risk Committee reviewed this MD&A and the audited consolidated financial statements, and Air Canada's Board of Directors approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of Air Canada's CEO and CFO, evaluated the effectiveness of Air Canada's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at December 31, 2025, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of Air Canada's CEO and CFO, evaluated the effectiveness of Air Canada's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2025, Air Canada's internal controls over financial reporting were effective. This evaluation took into consideration Air Canada's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Controls over Financial Reporting

In the third quarter of 2025, Air Canada implemented a new enterprise resource planning (ERP) system, resulting in changes that materially affect its internal controls over financial reporting. In connection with the deployment, management has developed and implemented new controls aligned with the ERP environment and performed additional procedures to ensure key control objectives were achieved. Management certified on the design of internal controls and concluded that internal controls over financial reporting were effective as of December 31, 2025. Management will continue to monitor their operating effectiveness during the post-implementation period.



20. Non-GAAP financial measures

Below is a description of certain non-GAAP financial measures and ratios used by Air Canada to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. The non-GAAP financial measures or ratios described in this section typically have exclusions or adjustments that include one or more of the following characteristics, such as being highly variable, difficult to project, unusual in nature, significant to the results of a particular period or not indicative of past or future operating results. These items are excluded because Air Canada believes these may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's operating expense performance and may allow for a more meaningful comparison to other airlines.

Air Canada excludes the effect of impairment of assets, if any, when calculating adjusted CASM, adjusted EBITDA, adjusted EBITDA margin, adjusted pre-tax income (loss) and adjusted net income (loss) as it may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful. Air Canada did not record charges for impairment of assets in 2025 or in 2024.

A charge of \$34 million was recorded in the third quarter of 2024 in other operating expenses related to estimated costs associated with contractual lease obligations. Air Canada excluded this expense in computing adjusted CASM, adjusted EBITDA, adjusted pre-tax income and adjusted net income.

In 2025 Air Canada recorded a one-time pension past service cost and other labour related charges of \$194 million, including from the pension plan amendments made in conjunction with the collective agreement reached with CUPE and an operating expense related to the streamlining of Air Canada's management structure. In 2024, with ratification of the collective agreement with ALPA, Air Canada recorded a one-time pension past service cost of \$490 million in the fourth quarter of 2024. Air Canada has excluded these charges in computing its adjusted EBITDA, adjusted CASM, adjusted pre-tax income and adjusted net income.

Adjusted CASM

Air Canada uses adjusted CASM to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, freighter costs and other items discussed above. These items may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's operating expense performance and may allow for a more meaningful comparison to that of other airlines.

In calculating adjusted CASM, aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations which some airlines, without comparable tour operator businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada had six Boeing 767 dedicated freighter aircraft in service as at December 31, 2025, and as at December 31, 2024. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison of the passenger airline business across periods.



Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)

	Fourth Quarter			Full Year		
	2025	2024	Change	2025	2024	Change
Operating expense – GAAP	\$ 5,446	\$ 5,658	\$ (212)	\$ 21,454	\$ 20,992	\$ 462
Adjusted for:						
Aircraft fuel	(1,185)	(1,154)	(31)	(4,731)	(5,118)	387
Ground package costs	(239)	(208)	(31)	(872)	(782)	(90)
Freighter costs (excluding fuel)	(45)	(50)	5	(173)	(163)	(10)
Provision for contractual lease obligations	-	-	-	-	(34)	34
Pension plan amendments and other labour related charges	(21)	(490)	469	(194)	(490)	296
Operating expense, adjusted for the above-noted items	\$ 3,956	\$ 3,756	\$ 200	\$ 15,484	\$ 14,405	\$ 1,079
ASMs (millions)	25,792	24,949	3.4%	105,174	104,381	0.8%
Adjusted CASM (cents)	¢ 15.34	¢ 15.05	¢ 0.28	¢ 14.72	¢ 13.80	¢ 0.92

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenues) are commonly used in the airline industry and are used by Air Canada as a means to view operating results and the related margin before interest, taxes, depreciation and amortization and other items discussed above. These items can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

Adjusted EBITDA and adjusted EBITDA margin are reconciled to GAAP operating income (loss) as follows:

(Canadian dollars in millions, except where indicated)

	Fourth Quarter			Full Year		
	2025	2024	Change	2025	2024	Change
Operating income (loss) – GAAP	\$ 324	\$ (254)	\$ 578	\$ 918	\$ 1,263	\$ (345)
Add back:						
Depreciation, amortization and impairment	522	460	62	2,012	1,799	213
Provision for contractual lease obligations	-	-	-	-	34	(34)
Pension plan amendments and other labour related charges	21	490	(469)	194	490	(296)
Adjusted EBITDA	\$ 867	\$ 696	\$ 171	\$ 3,124	\$ 3,586	\$ (462)
Operating revenues	\$ 5,770	\$ 5,404	\$ 366	\$ 22,372	\$ 22,255	\$ 117
Operating margin (%)	5.6	(4.7)	10.3 pp	4.1	5.7	(1.6) pp
Adjusted EBITDA margin (%)	15.0	12.9	2.1 pp	14.0	16.1	(2.1) pp



Adjusted Pre-tax Income (Loss)

Adjusted pre-tax income (loss) is used by Air Canada to assess the overall pre-tax financial performance of its business without the effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on disposal of assets, gains or losses on debt settlements and modifications and other items discussed above. These items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

A corporate charge of \$26 million for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in 2025. As this item is non-recurring and cash-neutral to Air Canada, since a related tax refund was also recorded, it has been added back to adjusted pre-tax income.

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

	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
(Canadian dollars in millions)						
Income (loss) before income taxes – GAAP	\$ 342	\$ (721)	\$ 1,063	\$ 789	\$ 515	\$ 274
Adjusted for:						
Provision for contractual lease obligations	-	-	-	-	34	(34)
Pension plan amendments and other labour related charges	21	490	(469)	194	490	(296)
Foreign exchange (gain) loss	(103)	372	(475)	(245)	400	(645)
Net interest relating to employee benefits	(10)	(6)	(4)	(24)	(22)	(2)
(Gain) loss on financial instruments recorded at fair value	(6)	38	(44)	(82)	(28)	(54)
(Gain) loss on debt settlement	-	(38)	38	-	8	(8)
Other corporate expenses	-	-	-	26	-	26
Adjusted pre-tax income	\$ 244	\$ 135	\$ 109	\$ 658	\$ 1,397	\$ (739)



Adjusted Net Income (loss) and Adjusted Earnings (Loss) per Share – Diluted

Air Canada uses adjusted net income (loss) and adjusted earnings (loss) per share – diluted as a means to assess the overall financial performance of its business without the after-tax effects of foreign exchange gains or losses, net financing expense relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets and other items discussed above. These items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

A corporate charge of \$26 million for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in 2025. As this item is non-recurring and cash-neutral to Air Canada, since a related tax refund was also recorded, it has been added back to adjusted net income.

Adjusted net income (loss) and adjusted earnings (loss) per share are reconciled to GAAP net income as follows:

	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
(Canadian dollars in millions)						
Net income (loss) – GAAP	\$ 296	\$ (644)	\$ 940	\$ 644	\$ 1,720	\$ (1,076)
Adjusted for:						
Provision for contractual lease obligations	-	-	-	-	34	(34)
Pension plan amendments and other labour related charges	21	490	(469)	194	490	(296)
Foreign exchange (gain) loss	(103)	372	(475)	(245)	400	(645)
Net interest relating to employee benefits	(10)	(6)	(4)	(24)	(22)	(2)
(Gain) loss on financial instruments recorded at fair value	(6)	38	(44)	(82)	(28)	(54)
(Gain) loss on debt settlements and modifications	-	(38)	38	-	8	(8)
Other corporate expenses	-	-	-	26	-	26
Income tax, including for the above reconciling items ⁽¹⁾	(7)	(119)	112	(42)	(1,267)	1,225
Adjusted net income	\$ 191	\$ 93	\$ 98	\$ 471	\$ 1,335	\$ (864)
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	296	374	(78)	320	376	(56)
Adjusted earnings per share – diluted	\$ 0.65	\$ 0.25	\$ 0.40	\$ 1.47	\$ 3.55	\$ (2.08)

(1) Previously unrecognized deferred income tax assets of \$1,056 million was recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of \$1,154 million. Refer to section 5 "Results of Operations – 2025 versus 2024" of this MD&A.



The table below reflects the share amounts used in the computation of basic and diluted earnings per share and of adjusted earnings per share.

	Fourth Quarter		Full Year	
	2025	2024	2025	2024
(In millions)				
Weighted average number of shares outstanding – basic	296	355	311	358
Effect of dilution	-	19	9	18
Weighted average number of shares outstanding – diluted	296	374	320	376

Free Cash Flow

Air Canada uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada can generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Refer to section 8.4 “Cash Flow Movements” of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

Net Debt

Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Refer to section 8.2 “Net Debt” of this MD&A for a reconciliation of this non-GAAP measure to the nearest measure under GAAP.



21. Glossary

Adjusted CASM – Refers to operating expense per ASM that is adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations, freighter costs and impairment of assets, if any. Adjusted CASM is a non-GAAP ratio, refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted EBITDA – Refers to earnings before interest, taxes, depreciation and amortization. When calculating adjusted EBITDA, Air Canada excludes impairment of assets, if any. Adjusted EBITDA is a non-GAAP financial measure, refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted EBITDA margin – Refers to adjusted EBITDA as a percentage of operating revenue. Adjusted EBITDA margin is a non-GAAP ratio, refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted net income (loss) – Refers to the consolidated net income (loss) of Air Canada, adjusted to remove the after-tax effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets and impairment of assets, if any. Adjusted net income (loss) is a non-GAAP financial measure, refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets and impairment of assets, if any. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 20 “Non-GAAP Financial Measures” this MD&A for additional information.

Aeroplan – Refers to Aeroplan Inc.

Atlantic – When used in reference to airline operations, refers to operations and revenues from flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa.

Available seat miles or ASMs – Refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown.

Average stage length – Refers to the average mile per departure seat and is calculated by dividing total ASMs by total seats dispatched.

CASM – Refers to operating expense per ASM.

Domestic – When used in reference to airline operations, refers to operations and revenues from flights within Canada.

Free cash flow – Refers to net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow is a non-GAAP financial measure. Refer to sections 8.4 “Cash Flow Movements” and 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

Leverage ratio – Also known as net debt to adjusted EBITDA ratio. Refers to the ratio of net debt to trailing 12-month adjusted EBITDA (calculated by dividing net debt by trailing 12-month adjusted EBITDA). Leverage ratio is a non-GAAP financial measure. Refer to sections 8.2 “Net Debt” and 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Net debt – Refers to total long-term debt liabilities (including current portion) less cash, cash equivalents and short- and long-term investments. Refer to section 8.2 “Net Debt” of this MD&A for a reconciliation of this capital management measure to the nearest measure under GAAP.

Other – When used in reference to airline operations, refers to operations and revenues from flights with origins and destinations principally in Central and South America, the Caribbean and Mexico.

Pacific – When used in reference to airline operations, refers to operations and revenues from flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia.

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

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

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

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

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

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

Shares – Refers to Air Canada’s Class A variable voting shares and Class B voting shares.

Total operating revenues per available seat mile or TRASM – Refers to average total operating revenues per ASM.

U.S. Transborder – When used in reference to airline operations, refers to operations and revenues from flights between Canada and the United States.

Yield – Refers to average passenger revenue per RPM.



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February 12, 2026





Statement of management's responsibility for financial reporting

The consolidated financial statements have been prepared by management. Management is responsible for the fair presentation of the consolidated financial statements in conformity with generally accepted accounting principles in Canada which incorporates International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). Management is responsible for the selection of accounting policies and making significant accounting judgments and estimates. Management is also responsible for all other financial information included in management's discussion and analysis and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting which includes those policies and procedures that provide reasonable assurance over the safeguarding of assets and over the completeness, fairness and accuracy of the consolidated financial statements and other financial information.

The Audit, Finance and Risk Committee, which is comprised entirely of independent directors, reviews the quality and integrity of Air Canada's financial reporting and provides its recommendations in respect of the approval of the financial statements to the Board of Directors; oversees management's responsibilities as to the adequacy of the supporting systems of internal controls; provides oversight of the independence, qualifications and appointment of the external auditor; and pre-approves audit, audit-related, and non-audit fees and expenses. The Board of Directors approves Air Canada's consolidated financial statements and management's discussion and analysis disclosures prior to their release. The Audit, Finance and Risk Committee meets with management, the internal auditors and external auditors at least four times each year to review and discuss financial reporting, disclosures, auditing and other matters.

The external auditor, PricewaterhouseCoopers LLP, conducts an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. The external auditor has unlimited access to the Audit, Finance and Risk Committee and meets with the Committee on a regular basis.

Michael Rousseau
President and
Chief Executive Officer

John Di Bert
Executive Vice President and
Chief Financial Officer

February 12, 2026



Independent auditor's report

To the Shareholders of Air Canada

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Air Canada and its subsidiaries (together, the Corporation) as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2025 and 2024;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Passenger and cargo revenue recognition</p> <p>Refer to note 2 – Basis of presentation and summary of material accounting policies and note 19 – Revenue to the consolidated financial statements.</p> <p>Passenger and cargo revenues are recognized when the transportation is provided. Total passenger and cargo revenues recognized for the year ended December 31, 2025 amounted to \$19,604 million and \$1,033 million, respectively.</p> <p>Such transactions rely on multiple Information Technology (IT) systems and controls to process, record, and recognize a high volume of low value revenue transactions through a combination of IT systems and outsourced service providers.</p> <p>We considered this a key audit matter due to the significance of passenger and cargo revenues and the volume of these transactions resulting in significant audit effort to test the revenue recognized.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • Tested the operating effectiveness of internal controls related to passenger and cargo revenue recognition, which included the following: <ul style="list-style-type: none"> – Tested the controls over the relevant IT systems that management used to recognize passenger and cargo revenues. – For the IT systems or processes that are outsourced to third party service providers, assessed the assurance reports attesting to the appropriateness and effectiveness of the internal control systems established by the service providers. • Tested a sample of passenger and cargo revenue transactions recorded during the year by inspecting the consideration received and the evidence of when the transportation was provided for passengers or cargo.

**Key audit matter****Measurements of the total benefit obligation**

Refer to note 2 – Basis of presentation and summary of material accounting policies, note 3 – Critical accounting estimates and judgments, and note 9 – Pensions and other benefit liabilities to the consolidated financial statements.

The Corporation has net benefit assets of \$912 million, which include total benefit obligations associated with pension benefit obligations of \$17,999 million and other employee future benefit obligations of \$1,048 million as at December 31, 2025.

The total benefit obligations associated with pension benefit obligations and other employee future benefit obligations are actuarially determined annually as at December 31 and are prepared by the Corporation's consulting actuaries (management's experts). The total benefit obligations are determined using the projected unit credit method. Management applied significant judgment in determining the discount rates and mortality assumptions to develop the estimates for the total benefit obligations.

We considered this a key audit matter due to the significance of the total benefit obligations and the significant judgment made by management, including the use of management's experts, in determining the discount rates and mortality assumptions, which resulted in a high degree of auditor judgment and subjectivity in performing procedures related to those assumptions.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Tested how management developed the estimates for the total benefit obligations, which included the following:
 - The work of management's experts was used in performing the procedures to evaluate the reasonableness of the total benefit obligations associated with pension benefit obligations and other employee future benefit obligations. As a basis for using this work, management's experts' competence, capabilities and objectivity were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluating the methods and assumptions used by management's experts, testing the data used by management's experts and evaluating their findings.
 - Professionals with specialized skill and knowledge in the field of actuarial services assisted in evaluating the appropriateness of the projected unit credit method and the reasonableness of the discount rates and mortality assumptions.

Key audit matter

The audit effort involved the use of professionals with specialized skill and knowledge in the field of actuarial services.

How our audit addressed the key audit matter

- Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the measurement of the pension benefit obligations and other employee future benefit obligations.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Results of Operations and Financial Condition, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Corporation as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mario Longpré.

PricewaterhouseCoopers LLP¹

Montréal, Quebec
February 12, 2026

¹FCPA auditor, public accountancy permit No. A123498.



Consolidated Statements of Financial Position

(Canadian dollars in millions)

		December 31, 2025	December 31, 2024
ASSETS			
Current			
Cash and cash equivalents		\$ 2,795	\$ 2,518
Short-term investments		2,730	4,464
Total cash, cash equivalents and short-term investments		5,525	6,982
Accounts receivable	Note 19	1,292	1,089
Aircraft fuel inventory		214	192
Spare parts and supplies inventory	Note 2P	276	199
Prepaid expenses and other current assets		609	600
Total current assets		7,916	9,062
Investments, deposits and other assets	Note 4	959	1,080
Property and equipment	Note 5	14,515	13,049
Pension assets	Note 9	2,513	2,535
Deferred income tax	Note 11	774	1,039
Intangible assets	Note 6	1,265	1,170
Goodwill	Note 7	3,273	3,273
Total assets		\$ 31,215	\$ 31,208
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 4,513	\$ 3,718
Advance ticket sales	Note 19	4,814	4,387
Aeroplan and other deferred revenue	Note 19	1,840	1,588
Current portion of long-term debt and lease liabilities	Note 8	2,967	1,755
Total current liabilities		14,134	11,448
Long-term debt and lease liabilities	Note 8	8,609	10,915
Aeroplan and other deferred revenue	Note 19	2,779	2,952
Pension and other benefit liabilities	Note 9	1,534	1,842
Maintenance provisions	Note 10	1,341	1,431
Other long-term liabilities		154	159
Deferred income tax	Note 11	73	73
Total liabilities		\$ 28,624	\$ 28,820
SHAREHOLDERS' EQUITY			
Share capital	Note 12	2,275	2,612
Contributed surplus		166	149
Hedging reserve		(3)	-
Accumulated other comprehensive loss		(49)	(48)
Retained earnings (deficit)		202	(325)
Total shareholders' equity		2,591	2,388
Total liabilities and shareholders' equity		\$ 31,215	\$ 31,208

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

On behalf of the Board of Directors:

Vagn Sørensen

Chair of the
Board of Directors

Christie J.B. Clark

Chair of the Audit,
Finance and Risk Committee



Consolidated Statements of Operations

For the year ended December 31

(Canadian dollars in millions except per share figures)

		2025	2024
Operating revenues			
Passenger	Note 19	\$ 19,604	\$ 19,760
Cargo	Note 19	1,033	991
Other		1,735	1,504
Total revenues		22,372	22,255
Operating expenses			
Aircraft fuel		4,731	5,118
Wages, salaries and benefits	Note 9	5,005	4,880
Depreciation, amortization and impairment	Note 5	2,012	1,799
Airport and navigation fees		1,587	1,487
Aircraft maintenance		1,343	1,237
Sales and distribution costs		1,075	1,085
Capacity purchase fees	Note 2D	863	860
Ground package costs		872	782
Communications and information technology		692	649
Catering and onboard services		673	637
Other	Note 20	2,601	2,458
Total operating expenses		21,454	20,992
Operating income		918	1,263
Non-operating income (expense)			
Foreign exchange gain (loss)		245	(400)
Interest income		222	431
Interest expense	Note 8	(663)	(763)
Interest capitalized		57	32
Financial instruments recorded at fair value	Note 16	82	28
Loss on debt settlements and modifications	Note 8	-	(8)
Other		(72)	(68)
Total non-operating expense		(129)	(748)
Income before income taxes		789	515
Income tax recovery (expense)	Note 11	(145)	1,205
Net income		\$ 644	\$ 1,720
Net income per share	Note 14		
Basic earnings per share		\$ 2.07	\$ 4.81
Diluted earnings per share		\$ 1.86	\$ 4.72

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

Consolidated Statements of Comprehensive Income

For the year ended December 31

(Canadian dollars in millions)

		2025	2024
Comprehensive income			
Net income		\$ 644	\$ 1,720
Other comprehensive income, net of tax:	Note 11		
Items that will not be reclassified to net income			
Remeasurements on net employee benefits	Note 9	409	300
Remeasurements on equity investments	Note 4	(1)	9
Items that will be reclassified to net income			
Fuel derivatives designated as cash flow hedges	Note 16	(3)	-
Total comprehensive income		\$ 1,049	\$ 2,029



Consolidated Statements of Changes in Equity

(Canadian dollars in millions)

	Share capital	Contributed surplus	Hedging reserve	Accumulated OCI	Retained earnings (deficit)	Total shareholders' equity
January 1, 2024	\$ 2,744	\$ 133	-	\$ (57)	\$ (2,024)	\$ 796
Net income	-	-	-	-	1,720	1,720
Remeasurements on net employee benefits	-	-	-	-	300	300
Remeasurements on equity investments	-	-	-	9	-	9
Total comprehensive income	-	-	-	9	2,020	2,029
Share-based compensation	-	16	-	-	-	16
Shares purchased and cancelled under issuer bid (Note 12)	(155)	-	-	-	(340)	(495)
Shares issued (Note 12)	1	-	-	-	-	1
Deferred income tax recognition (Note 11)	22	-	-	-	19	41
December 31, 2024	\$ 2,612	\$ 149	-	\$ (48)	\$ (325)	\$ 2,388
Net income	-	-	-	-	644	644
Remeasurements on net employee benefits	-	-	-	-	409	409
Remeasurements on equity investments	-	-	-	(1)	-	(1)
Fuel derivatives designated as cash flow hedges	-	-	(3)	-	-	(3)
Total comprehensive income	-	-	(3)	(1)	1,053	1,049
Share-based compensation	-	18	-	-	-	18
Shares purchased and cancelled (Note 12)	(340)	-	-	-	(526)	(866)
Shares issued (Note 12)	3	(1)	-	-	-	2
December 31, 2025	\$ 2,275	\$ 166	(3)	\$ (49)	\$ 202	\$ 2,591

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



Consolidated Statements of Cash Flow

For the year ended December 31

(Canadian dollars in millions)

		2025	2024
Cash flows from (used for)			
Operating			
Net income		\$ 644	\$ 1,720
Adjustments to reconcile to net cash from operations			
Deferred income tax	Note 11	126	(1,235)
Depreciation, amortization and impairment	Note 5	2,012	1,799
Foreign exchange (gain) loss		(195)	623
Employee benefit funding less than expense	Note 9	269	568
Financial instruments recorded at fair value	Note 16	(82)	(28)
Loss on debt settlements and modifications	Note 8	-	8
Change in maintenance provisions		82	192
Changes in non-cash working capital balances		758	214
Other		43	69
Net cash flows from operating activities		3,657	3,930
Financing			
Proceeds from borrowings	Note 8	231	1,590
Repayments of long-term debt and lease liabilities	Note 8	(1,744)	(3,956)
Shares purchased for cancellation	Note 12	(859)	(473)
Issue of shares	Note 12	2	1
Financing fees	Note 8	-	(34)
Net cash flows used in financing activities		(2,370)	(2,872)
Investing			
Short-term investments, net		1,475	633
Disposals of long-term investments		1,313	2,042
Purchase of long-term investments		(976)	(1,401)
Additions to property, equipment and intangible assets		(2,910)	(2,636)
Other		93	(1)
Net cash flows used in investing activities		(1,005)	(1,363)
Effect of exchange rate changes on cash and cash equivalents		(5)	6
Increase (decrease) in cash and cash equivalents		277	(299)
Cash and cash equivalents, beginning of year		2,518	2,817
Cash and cash equivalents, end of year		\$ 2,795	\$ 2,518

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



For the years ended December 31, 2025 and 2024
(Canadian dollars except where otherwise indicated)

1. General information

The accompanying audited consolidated financial statements (the “financial statements”) are of Air Canada. Air Canada refers, as the context may require, to Air Canada alone or Air Canada and one or more of its subsidiaries, including its principal wholly-owned operating subsidiaries, Aeroplan Inc. (“Aeroplan”), Touram Limited Partnership doing business under the brand name Air Canada Vacations® (“Air Canada Vacations”), and Air Canada Rouge LP doing business under the brand name Air Canada Rouge® (“Air Canada Rouge”) or to one or more of such subsidiaries.

Air Canada is incorporated and domiciled in Canada. The address of its registered office is 7373 Côte-Vertu Boulevard West, Montréal (Saint-Laurent), Quebec.

Air Canada is Canada’s largest domestic, U.S. transborder and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market as well as the international market to and from Canada. Certain of the scheduled passenger services offered on domestic and Canada-U.S. transborder routes are operated under the brand name “Air Canada Express” by third parties including Jazz Aviation LP (“Jazz”), a wholly-owned subsidiary of Chorus Aviation Inc. (“Chorus”) and PAL Airlines Ltd., a wholly-owned subsidiary of Exchange Income Corporation, through capacity purchase and other commercial agreements. Through Air Canada’s global route network, virtually every major market throughout the world is served either directly or through Star Alliance and other carriers. Air Canada also offers air cargo services on domestic and U.S. transborder routes as well as on international routes between Canada and major markets in Europe, Asia, South America and Australia.

Aeroplan operates a loyalty rewards and recognition program that allows individuals to enroll as members and open an Aeroplan account, to accumulate Aeroplan Points through travel on Air Canada and select partners, as well as through the purchase of products and services from participating partners and suppliers. This program also allows members to redeem Aeroplan Points for a variety of travel, merchandise, gift card, and other rewards provided directly by participating partners or made available through Aeroplan’s intermediary suppliers.

2. Basis of presentation and summary of material accounting policies

Air Canada prepares its financial statements in accordance with generally accepted accounting principles in Canada (“GAAP”) as set out in the CPA Canada Handbook – Accounting (“CPA Handbook”) which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

These financial statements were approved for issue by the Board of Directors of Air Canada on February 12, 2026.

These financial statements are based on the accounting policies described below. These policies have been consistently applied to all the periods presented.

A) BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the revaluation of cash, cash equivalents, short-term investments, restricted cash, long-term investments, the equity investment in Chorus, and derivative instruments which are measured at fair value.

B) PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of Air Canada and its subsidiaries. Subsidiaries are all entities which Air Canada controls. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-company balances and transactions are eliminated.

C) PASSENGER AND CARGO REVENUES

Passenger and cargo revenues are recognized when the transportation is provided, except for revenue on unlimited flight passes which is recognized on a straight-line basis over the period during which the travel pass is valid.

Air Canada has formed alliances with other airlines encompassing loyalty program participation, interline agreements and code sharing and coordination of services including reservations, baggage handling and flight schedules. Revenues are allocated based upon formulas specified in the agreements and are recognized as transportation is provided. Passenger revenue also includes certain fees and surcharges and revenues from passenger-related services such as seat selection and excess baggage which are recognized when transportation is provided. Passenger revenues are reduced for any passenger compensation for delayed and cancelled flights paid directly to a customer. Airline passenger and cargo advance sales are deferred and included in Current liabilities. Air Canada records an estimate of breakage revenue, which is recorded at the time when transportation was scheduled to be provided, for tickets that will expire unused. These estimates are based on historical experience and other considerations.



D) CAPACITY PURCHASE AGREEMENT

Air Canada enhances its domestic and transborder network through commercial agreements with regional carriers, including Jazz. Under these agreements, Air Canada markets, tickets and enters into other commercial arrangements relating to these flights and records the revenue it earns under Passenger revenue when transportation is provided.

Capacity purchase fees are presented as a separate line item in the consolidated statement of operations and exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. Pass-through costs, which are direct costs incurred by the regional carriers and charged to Air Canada and other costs incurred by Air Canada which are directly related to regional carrier operations are included in the line items to which they relate in the consolidated statement of operations.

E) AEROPLAN LOYALTY PROGRAM

The Aeroplan loyalty program generates customer loyalty by rewarding customers who travel with Air Canada. This program allows program members to earn Aeroplan Points by flying on Air Canada, Star Alliance partners and other airlines that participate in the Aeroplan loyalty program. When travelling, program members earn redeemable Aeroplan Points based on a number of factors including the passenger's loyalty program status, distance travelled, booking class and travel fare paid. Members can also earn Aeroplan Points through participating Aeroplan program partners such as credit card companies, hotels, car rental agencies and other program partners. Aeroplan Points are redeemable by members for air travel on Air Canada and other participating airlines, and for other program awards, such as hotel, car rentals, gift cards, merchandise and other non-air rewards.

Aeroplan members can earn Aeroplan Points: (i) through travel and (ii) based on spending with program partners.

Points Earned with Travel

Passenger ticket sales earning Aeroplan Points under the Aeroplan loyalty program provide members with (1) air transportation and (2) Aeroplan Points. As a revenue arrangement with multiple performance obligations, each performance obligation is valued on a relative standalone fair value basis. The value of Aeroplan Points issued is determined based on the value a passenger receives by redeeming Points for a ticket rather than paying cash, which is referred to as Equivalent Ticket Value ("ETV"). The ETV is adjusted for Points that are not expected to be redeemed ("breakage"). The consideration allocated to the ETV for Points earned with travel is recorded in Aeroplan deferred revenue.

Points Earned through Program Partners

Aeroplan members can earn Aeroplan Points based on their spending with participating Aeroplan partners such as credit card companies, hotels and car rental agencies and other program partners. Aeroplan Points issued under program partner agreements are accounted for as a single performance obligation being the future delivery of a redemption reward to the Aeroplan member. The consideration received for Aeroplan Points issued to Aeroplan members under these agreements is recorded as Aeroplan deferred revenue.

Breakage represents the estimated Aeroplan Points that are not expected to be redeemed by Aeroplan members. The amount of revenue recognized related to breakage is based on the

number of Aeroplan Points redeemed in a period in relation to the total number of Aeroplan Points expected to be redeemed. The number of Aeroplan Points redeemed in a period also factors into any revised estimate for breakage. Changes in breakage are accounted for as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to passenger revenue; and for subsequent periods, the revised estimate is used.

F) OTHER REVENUES

Other revenue is primarily comprised of revenues from the sale of the ground portion of vacation packages, ground handling services, on-board sales, lounge pass sales and loyalty program marketing fees. Vacation package revenue is recognized as services are provided over the period of the vacation. Other airline related service revenues are recognized as the products are sold to passengers or the services are provided.

Redemption of Aeroplan Points for non-air goods and services is recorded in other revenue. For non-air redemptions, Air Canada has determined that, for accounting purposes, it is not the principal in the transaction between the member and the ultimate supplier of the goods or service. When Points are redeemed for non-air goods and services, the net margin is recorded in other revenue when the performance obligation is satisfied.

In certain subleases of aircraft to Jazz, for accounting purposes, Air Canada acts as an agent and accordingly reports the sublease revenues net against capacity purchase fees. Air Canada acts as lessee and sublessor in these matters.

G) EMPLOYEE BENEFITS

The cost of pensions, other post-retirement and post-employment benefits earned by employees is actuarially determined annually as at December 31 and is prepared by Air Canada's consulting actuaries. The cost is determined using the projected unit credit method and assumptions including discount rates, future increases in compensation, retirement ages of employees, mortality rates, and health care costs.

Past service costs are recognized in the period of a plan amendment, irrespective of whether the benefits have vested. Gains and losses on curtailments or settlements are recognized in the period in which the curtailment or settlement occurs.

The current service cost and any past service cost, gains and losses on curtailments or settlements are recorded in Wages, salaries and benefits generally. The interest arising on the net benefit obligations are presented in Other in Non-operating income (expense). Net actuarial gains and losses, referred to as remeasurements, are recognized in Other comprehensive income and Retained earnings without subsequent reclassification to income.

The current service cost is estimated utilizing different discount rates derived from the yield curve used to measure the defined benefit obligation at the beginning of the year, reflecting the different timing of benefit payments for past service (the defined benefit obligation) and future service (the current service cost).

The liability in respect of minimum funding requirements, if any, is determined using the projected minimum funding requirements, based on management's best estimates of the actuarially determined funded status of the plan, market discount rates and salary escalation



estimates. The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability are recognized immediately in Other comprehensive income and Retained earnings (deficit) without subsequent reclassification to income.

Recognized pension assets are limited to the present value of any reductions in future contributions or any future refunds.

H) EMPLOYEE PROFIT SHARING PLANS

Air Canada has employee profit sharing plans. Payments are calculated based on full calendar year results and an expense recorded throughout the year, as applicable, as a charge to Wages, salaries and benefits based on the estimated annual payments under the plans.

I) SHARE-BASED COMPENSATION PLANS

Certain employees of Air Canada participate in Air Canada's Long-Term Incentive Plan, which provides for the grant of stock options, performance share units ("PSUs") and restricted share units ("RSUs"), as further described in Note 13. PSUs and RSUs are notional share units which are exchangeable on a one-to-one basis for Air Canada shares or the cash equivalent, as determined by the Board of Directors.

Options are expensed using a graded vesting model over the vesting period. Air Canada recognizes compensation expense and a corresponding adjustment to Contributed surplus equal to the fair value of the equity instruments granted using the Black-Scholes option pricing model taking into consideration forfeiture estimates. Compensation expense is adjusted for subsequent changes in management's estimate of the number of options that are expected to vest.

PSUs and RSUs are accounted for as cash settled instruments based on settlement experience. In accounting for cash settled instruments, compensation expense is adjusted for subsequent changes in the fair value of the PSUs and RSUs taking into account forfeiture estimates. The liability related to cash settled PSUs and RSUs is recorded in Accounts payable and accrued liabilities and Other long-term liabilities.

Air Canada also maintains an employee share purchase plan. Under this plan, contributions by Air Canada's employees are matched to a specific percentage by Air Canada. Employees must remain with Air Canada and retain their shares until March 31 of the subsequent year for vesting of Air Canada's contributions. These contributions are expensed in Wages, salaries, and benefits expense over the vesting period.

J) MAINTENANCE AND REPAIRS

Maintenance and repair costs for both leased and owned aircraft are charged to Aircraft maintenance as incurred, with the exception of maintenance and repair costs related to return conditions on aircraft under lease, which are accrued over the term of the lease, and major maintenance expenditures on owned and leased aircraft, which are capitalized as described below in Note 2Q.

Maintenance and repair costs related to return conditions on aircraft leases are recorded over the term of the lease for the end of lease maintenance return condition obligations within Air Canada's leases, offset by a prepaid maintenance asset to the extent of any related power-by-the-hour maintenance service agreements. Maintenance provisions for end-of-lease return obligations are recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease, taking into account the specific risks of the liability over the remaining term of the lease. Interest accretion on the provision is recorded in Other non-operating expense. Any changes to the provision for end-of-lease conditions are recognized as an adjustment to the right-of-use asset and subsequently amortized to the income statement over the remaining term of the lease. Any difference in the actual maintenance cost incurred and the amount of the provision are recorded in Aircraft maintenance.

K) OTHER OPERATING EXPENSES

Included in Other operating expenses are expenses related to building rent and maintenance, airport terminal handling costs, professional fees and services, crew meals and hotels, advertising and promotion, insurance costs, and other expenses. Other operating expenses are recognized as incurred.

L) FINANCIAL INSTRUMENTS

Recognition

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when Air Canada becomes a party to the financial instrument or derivative contract.

Classification

Air Canada classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and (ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

Air Canada reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Air Canada has implemented the following classifications:

- Cash and cash equivalents, short-term investments, restricted cash, and long-term investments are classified as assets at fair value through profit and loss and any period change in fair value is recorded through Interest income and Financial instruments recorded at fair value in the consolidated statement of operations, as applicable.
- The equity investment in Chorus is classified as an asset at fair value through other comprehensive income and any period change in fair value is recorded through other comprehensive income in the consolidated statement of comprehensive income, as applicable.



- Accounts receivable and aircraft-related and other deposits are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.
- Accounts payable, credit facilities, and long-term debt are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of operations, as applicable.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent to initial recognition, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

Impairment

Air Canada assesses all information available, including, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, Air Canada compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, Air Canada applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables.

Derivatives and Hedge Accounting

Air Canada enters into foreign currency, fuel derivatives and share forward contracts to manage the associated risks. Derivative instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are required to be accounted for separately. Changes in the fair value of derivative instruments are recognized in Non-operating income (expense), except for effective changes for designated fuel derivatives under hedge accounting as described below. Derivative instruments are recorded in Prepaid expenses and other current assets, Deposits and other assets, Accounts payable and accrued liabilities, and Other long-term liabilities based on the terms of the contractual agreements. All cash flows associated with purchasing and selling derivatives are classified as operating cash flows in the consolidated statement of cash flow.

Air Canada applies hedge accounting for designated fuel derivatives. Air Canada has established a hedge ratio of 1:1 for its fuel hedging relationships. Under hedge accounting, to the extent effective, the gain or loss on fuel hedging derivatives is recorded in other

comprehensive income. Premiums paid for option contracts and the time value of the option contracts are deferred as a cost of the hedge in other comprehensive income. Amounts accumulated in other comprehensive income are presented as hedging reserve in equity and are reclassified to Aircraft fuel expense when the underlying hedged jet fuel is used. Any ineffective gain or loss on fuel hedging derivatives is recorded in non-operating expense in Financial instruments recorded at fair value.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

M) FOREIGN CURRENCY TRANSLATION

The functional currency of Air Canada and its subsidiaries is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the consolidated statement of financial position. Non-monetary assets and liabilities, revenues and expenses arising from transactions denominated in foreign currencies, are translated at the historical exchange rate or the average exchange rate during the period, as applicable. Adjustments to the Canadian dollar equivalent of foreign denominated monetary assets and liabilities due to the impact of exchange rate changes are recognized in Foreign exchange gain (loss).

N) INCOME TAXES

The tax expense for the period comprises current and deferred income tax. Tax expense is recognized in the consolidated statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is netted with such items.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where Air Canada and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Air Canada adopted the amendments to IAS 12 Income Taxes regarding the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation



for Economic Co-operation and Development in 2024 and applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. There was no impact for the years ended December 31, 2025 and 2024.

O) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net income for the period attributable to the shareholders of Air Canada by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding for dilutive potential shares. Air Canada's potentially dilutive shares are comprised of stock options and until their settlement with cash on maturity in July 2025, convertible notes. The number of shares included with respect to time vesting options is computed using the treasury stock method unless they are anti-dilutive. Under this method, the proceeds from the exercise of such instruments are assumed to be used to purchase shares at the average market price for the period and the difference between the number of shares issued upon exercise and the number of shares assumed to be purchased is included in the calculation. The number of shares included with respect to performance-based employee share options is treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. If the specified conditions are met, then the number of shares included is also computed using the treasury stock method unless they are anti-dilutive.

For the period up to July 2025 when the convertible notes were settled with cash, the weighted average number of shares outstanding in diluted EPS was also adjusted for the number of shares that would be issued on the conversion of the convertible notes. Additionally, the net income was adjusted for the after-tax effect of any changes to net income that would result from the conversion of the convertible notes, including interest recognized in the period, foreign exchange recognized on the debt principal, and the mark to market revaluation of the embedded derivative unless the result of the adjustments was anti-dilutive.

P) AIRCRAFT FUEL INVENTORY AND SPARE PARTS AND SUPPLIES INVENTORY

Inventories of aircraft fuel, spare parts and supplies are measured at cost being determined using a weighted average formula, net of related obsolescence provision, as applicable.

Air Canada did not recognize any write-downs on inventories or reversals of any previous write-downs during the periods presented. Included in Aircraft maintenance is \$114 million related to spare parts and supplies consumed during the year (2024 – \$78 million).

Q) PROPERTY AND EQUIPMENT

Property and equipment are recognized using the cost model. Property and equipment under leases, recognized as right-of-use assets, and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the asset and the present value of those lease payments.

Air Canada allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each component. Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are componentized into airframe, engine, and cabin interior equipment and modifications. Airframes and engines are depreciated over periods not exceeding 25 years, with residual values initially estimated at 10% of the original cost and updated for changes in estimates over time. Spare engines and related parts ("rotables") are depreciated over the average remaining useful life of the fleet to which they relate with residual values initially estimated at 10%. Cabin interior equipment and modifications are depreciated over the lesser of eight years or the remaining useful life of the aircraft. Cabin interior equipment and modifications to aircraft on lease are amortized over the lesser of eight years or the term of the lease. Major maintenance of airframes and engines, including replacement spares and parts, labour costs and/or third-party maintenance service costs, are capitalized and amortized over the average expected life between major maintenance events. Major maintenance events typically consist of more complex inspections and servicing of the aircraft. All power-by-the-hour fleet maintenance contract costs are charged to operating expenses in the income statement as incurred. Buildings are depreciated on a straight-line basis over their useful lives not exceeding 50 years or the term of any related lease, whichever is less. Leasehold improvements are amortized over the lesser of the lease term or 10 years. Ground and other equipment is depreciated over periods ranging from 3 to 25 years.

Residual values and useful lives are reviewed at least annually, and depreciation rates are adjusted accordingly on a prospective basis. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of non-operating gains and losses in the consolidated statement of operations.



R) LEASES

Accounting for Leases and Right-of-Use Assets

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by Air Canada. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the consolidated statement of operations over the lease period to produce a constant rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are accounted for under IFRS 16, Leases. Aircraft recorded as right-of-use assets have the same accounting policies as directly owned aircraft, meaning the right-of-use assets are componentized and depreciated over the lease term. Consistent with owned aircraft, any qualifying maintenance events are capitalized and depreciated over the lesser of the lease term and expected maintenance life.

Changes to the terms and conditions, or events impacting the extension of a lease would usually require an assessment of whether it is a lease modification which could involve recalculating lease assets and liabilities using a revised discount rate.

Maintenance provisions for end-of-lease return obligations are recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease. Any changes to the provision for end-of-lease conditions are recognized as an adjustment to the right-of-use asset and subsequently amortized to the income statement over the remaining term of the lease.

Aircraft Leases

As at December 31, 2025, Air Canada had 81 aircraft under right-of-use leases (80 aircraft as at December 31, 2024) and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada in accordance with the requirements of IFRS 16. Additionally, Air Canada is the lessee in respect of certain aircraft used by its regional carrier, Jazz, providing services under a capacity purchase agreement and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada. As at December 31, 2025, there were 68 aircraft (81 aircraft as at December 31, 2024) operating under these arrangements on behalf of Air Canada.

Property Leases

Air Canada has leases related to airport terminal operations space and other real estate leases. For leases related to terminal operations space, there are generally effective substitution rights in the hands of the lessor and therefore these are not considered lease contracts under the standard. Leases with reciprocal termination rights with a notice period of less than 12 months are considered short-term leases and therefore excluded from balance sheet recognition under the practical expedient. Finally, those airport terminal contracts with entirely variable lease payments are also excluded since variable lease payments, other than those based on an index or rate, are excluded from the measurement of the lease liability. This results in a portfolio of property leases that are recorded as right-of-use assets and lease liabilities under the standard which relate to dedicated space in Air Canada's hub locations of Toronto, Montreal and Vancouver, lease contracts on building space dedicated to Air Canada for offices, airport and maintenance operations, Maple Leaf Lounges and land leases.

S) INTANGIBLE ASSETS

Intangible assets are initially recorded at cost. Indefinite life intangible assets are not amortized while assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

	Estimated Useful Life	Remaining amortization period as at December 31, 2025
International route rights and slots	Indefinite	Not applicable
Marketing-based trade names	Indefinite	Not applicable
Technology-based (internally developed)	5 to 15 years	1 to 10 years
Contract-based (Aeroplan commercial agreements)	11.5 years	5 years

Air Canada has international route rights and slots which enable Air Canada to provide services internationally. The value of the recorded intangible assets relates to the cost of route and slot rights at Tokyo's Narita International Airport, Washington's Reagan National Airport and London's Heathrow Airport.

Air Canada and certain of its subsidiaries have trade names, trademarks, and domain names (collectively, "Trade Names"). These items are marketing-based intangible assets as they are primarily used in the sale and promotion of Air Canada's and/or a subsidiary's products and services. If there were plans to cease using any of the Trade Names, the specific names would be classified as finite and amortized over the expected remaining useful life.

Development costs that are directly attributable to the design, development, implementation and testing of identifiable software products are recognized as technology-based intangible assets if certain criteria are met, including technical feasibility and intent and ability to develop and use the technology to generate probable future economic benefits; otherwise, they are expensed as incurred. Directly attributable costs that are capitalized as part of the technology-based intangible assets include software-related, employee and third-party development costs and an appropriate portion of relevant overhead. Configuration or customization costs in a cloud computing arrangement are also included when they meet the capitalization criteria as an intangible asset.

T) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of Air Canada's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is tested for impairment at the lowest level within the entity at which the goodwill is monitored for internal management purposes, being the operating segment level (Note 2W).



U) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets include property and equipment, finite lived intangible assets, indefinite lived intangible assets and goodwill. Assets that have an indefinite useful life, including goodwill are tested at least annually for impairment or when events or circumstances indicate that the carrying value may not be recoverable. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment test is performed by comparing the carrying amount of the asset or group of assets to their recoverable amount. The recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to dispose and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). Management has determined that the appropriate level for assessing impairments is at the narrow-body and wide-body fleet levels for aircraft and related assets supporting the operating fleet. Parked aircraft (not including aircraft that are parked but are expected to be so temporarily and returned to service) not used in operations and aircraft leased or subleased to third parties are assessed for impairment at the individual asset level. An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount.

Long-lived assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Management assesses whether there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased. In assessing whether there is a possible reversal of an impairment loss, management considers the indicators that gave rise to the impairment loss. If any such indicators exist that an impairment loss has reversed, management estimates the recoverable amount of the long-lived asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of any individual asset in the CGU is not increased above the carrying value that would have been determined had the original impairment not occurred. A reversal of an impairment loss is recognized immediately in the consolidated statement of operations.

V) PROVISIONS

Provisions are recognized when there exists a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. If the effect is significant, the expected cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, interest accretion on the provision is recorded in Other non-operating expense.

W) SEGMENT REPORTING

Air Canada is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer.

X) ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The following accounting standards and amendments to accounting standards issued by the IASB have not yet been adopted by Air Canada.

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements but carries forward many of the requirements from IAS 1. The standard introduces new defined subtotals to be presented in the consolidated statements of operations, disclosure of management-defined performance measures related to the income statement and requirements for grouping of information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with earlier adoption permitted. Air Canada will apply the standard effective January 1, 2027 and it will be applied retrospectively with restatement of the comparative period. IFRS 18 will modify the formatting of the consolidated statement of operations with the presentation of revenue and expenses under three categories (operating, investing and financing), therefore all items currently presented in the non-operating income (expense) section of the consolidated statement of operations will be impacted, in particular the presentation of foreign exchange gains and losses as it can relate to more than one category under the new standard. Air Canada is continuing to evaluate the impact of this standard on its consolidated financial statements.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The narrow scope amendments clarify classification guidance for financial assets with environmental, social and corporate governance features; and clarify the date on which a financial asset or financial liability is derecognized when using electronic payment systems. The amendments aim to address diversity in practice by specifying that receivables and payables settled electronically should only be derecognized when a corporation has transferred control of the cash and no longer retains settlement-related risks, which may occur later than the point when a payment is initiated. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted. Air Canada is continuing to evaluate its electronic payment processes and the disclosures required under these amendments. No material impact is expected for Air Canada's consolidated statement of financial position as of January 1, 2026 adoption.



3. Critical accounting estimates and judgments

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. These estimates and associated assumptions are based on historical experience, future operating plans and various other factors believed to be reasonable under the circumstances, and the results of such estimates form the basis of judgments about carrying values of assets and liabilities. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Significant estimates and judgments made in the preparation of these financial statements include the following areas, with further information contained in the applicable accounting policy or note:

Employee Future Benefits

The cost and related liabilities of Air Canada's pension, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions and estimates including discount rates and mortality assumptions. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty. Refer to Note 9 for additional information.

Aeroplan Loyalty Program

Loyalty program accounting requires management to make several estimates including the ETV of Aeroplan Points issued and the breakage on Aeroplan Points. The ETV of Aeroplan Points issued is determined based on the value a passenger receives by redeeming Points for a ticket rather than paying cash. This ETV is estimated with reference to historical Aeroplan redemptions as compared to equivalent ticket purchases after considering similar fare conditions, advance booking periods and other relevant factors including the rate per Point paid by third parties. ETV estimates and assumptions are considered for updates at least annually. A change in the ETV rate is accounted for prospectively.

Breakage represents the estimated Points that are not expected to be redeemed. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions or other circumstances that may affect future redemptions. Management uses statistical and simulation models to estimate breakage. Assumptions are reviewed for updates at least annually. A change in assumptions as to the number of Points expected to be redeemed could have a significant impact on revenue in the year in which the change occurs.

As at December 31, 2025, the Aeroplan Points deferred revenue balance was \$4,008 million. For the purposes of sensitivity analysis, a 1% change in the number of outstanding Points estimated to be redeemed would result in an approximate impact of \$40 million on revenue with a corresponding adjustment to Aeroplan deferred revenue.

Passenger revenues – Breakage

Air Canada estimates the amount of advance ticket sales that will expire unused (breakage) and recognizes revenue at the scheduled date of travel. Breakage estimates and resulting amount of breakage revenues recorded are estimated by management based on historical ticket breakage patterns and other applicable factors such as ticket contract terms. Estimates of breakage may vary in future periods.

Impairment Considerations on Long-lived Assets

When required, an impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to dispose and its value in use. Fair value less costs to dispose may be calculated based upon a discounted cash flow analysis, which requires management to make a number of significant market participant assumptions including assumptions relating to cash flow projections, discount rates and future growth rates. Refer to Note 6.

Depreciation and Amortization Period for Long-lived Assets

Air Canada makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current and future fair values of the assets, Air Canada's fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in jet fuel prices and other operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on aircraft with remaining useful lives greater than five years results in an increase of \$16 million to annual depreciation expense. For aircraft with shorter remaining useful lives, the residual values are not expected to change significantly.

Maintenance Provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates take into account current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred at the end of the lease and the amount of the provision is recorded in Aircraft maintenance expense in the period. The effect of any changes in estimates, including changes in discount rates, inflation assumptions, cost estimates or lease expiries, is recognized as an adjustment to the right-of-use asset. Refer to Note 10(a) for additional information.



4. Investments, deposits and other assets

(Canadian dollars in millions)	2025	2024
Long-term investments	\$ 640	\$ 770
Investment in Chorus (a)	48	49
Restricted cash (b)	117	104
Aircraft related deposit	42	53
Prepayments under maintenance agreements	76	60
Other investments	27	38
Other deposits	9	6
	\$ 959	\$ 1,080

- a) The investment represents Air Canada's holding of 2,223,085 class B voting shares in the capital of Chorus.
- b) Restricted cash represents funds held in trust with various financial institutions as collateral for letters of credit and other items.



5. Property and equipment

	December 31, 2025			December 31, 2024		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
<small>(Canadian dollars in millions)</small>						
Owned tangible assets						
Aircraft and flight equipment	\$ 17,598	\$ 8,159	\$ 9,439	\$ 16,362	\$ 7,416	\$ 8,946
Buildings and leasehold improvements	1,287	785	502	1,225	736	489
Ground and other equipment	927	565	362	809	515	294
Purchase deposits and assets under development	1,945	-	1,945	1,414	-	1,414
Owned tangible assets	\$ 21,757	\$ 9,509	\$ 12,248	\$ 19,810	\$ 8,667	\$ 11,143
Right-of-use assets						
Air Canada aircraft	\$ 4,808	\$ 3,179	\$ 1,629	\$ 4,088	\$ 2,905	\$ 1,183
Regional aircraft	1,551	1,245	306	1,598	1,206	392
Land and buildings	637	305	332	610	279	331
Right-of-use assets	\$ 6,996	\$ 4,729	\$ 2,267	\$ 6,296	\$ 4,390	\$ 1,906
Property and equipment	\$ 28,753	\$ 14,238	\$ 14,515	\$ 26,106	\$ 13,057	\$ 13,049

Additions to owned aircraft in 2025 included seven new Airbus A220 and one new Boeing 787-9. Additions through the purchase of leased aircraft included two Airbus A330, three Airbus A321 and five De Havilland Dash 8-400 aircraft. Additions to right-of-use assets included the delivery of six new Boeing 737-8 aircraft. Four Airbus A319 and two Boeing 767 aircraft were sold in 2025 with a loss on disposal of less than \$1 million.

Additions to owned aircraft in 2024 included one new Airbus A220 and one new Boeing 787-9. Additions in 2024 through the purchase of leased aircraft included two Airbus A330 aircraft. Additions in 2024 to right-of-use assets included the delivery of one new Boeing 737-8 aircraft.

Included in aircraft and flight equipment are 33 aircraft and 13 spare engines (2024 – 33 aircraft and 13 spare engines) which are leased to Jazz with a cost of \$619 million (2024 – \$590 million) less accumulated depreciation of \$400 million (2024 – \$335 million) for a net book value of \$219 million (2024 – \$255 million). Depreciation expense for 2025 for these aircraft and flight equipment amounted to \$72 million (2024 – \$59 million).

Certain property and equipment are pledged as collateral as further described under the applicable debt instruments in Note 8.



(Canadian dollars in millions)

	January 1, 2025	Additions	Reclass	Disposals	Depreciation	December 31, 2025
Owned tangible assets						
Aircraft and flight equipment	\$ 8,946	\$ 1,258	\$ 479	\$ (81)	\$ (1,163)	\$ 9,439
Buildings and leasehold improvements	489	10	58	-	(55)	502
Ground and other equipment	294	114	14	(1)	(59)	362
Purchase deposits and assets under development	1,414	1,082	(551)	-	-	1,945
Owned tangible assets	\$ 11,143	\$ 2,464	\$ -	\$ (82)	\$ (1,277)	\$ 12,248
Right-of-use assets						
Air Canada aircraft	\$ 1,183	\$ 855	\$ -	\$ (2)	\$ (407)	\$ 1,629
Regional aircraft	392	53	-	-	(139)	306
Land and buildings	331	32	-	-	(31)	332
Right-of-use assets	\$ 1,906	\$ 940	\$ -	\$ (2)	\$ (577)	\$ 2,267
Property and equipment	\$ 13,049	\$ 3,404	\$ -	\$ (84)	\$ (1,854)	\$ 14,515

(Canadian dollars in millions)

	January 1, 2024	Additions	Reclass	Disposals	Depreciation	December 31, 2024
Owned tangible assets						
Aircraft and flight equipment	\$ 8,603	\$ 1,149	\$ 223	\$ (6)	\$ (1,023)	\$ 8,946
Buildings and leasehold improvements	446	6	86	-	(49)	489
Ground and other equipment	209	126	-	-	(41)	294
Purchase deposits and assets under development	685	1,038	(309)	-	-	1,414
Owned tangible assets	\$ 9,943	\$ 2,319	\$ -	\$ (6)	\$ (1,113)	\$ 11,143
Right-of-use assets						
Air Canada aircraft	\$ 1,151	\$ 423	\$ -	\$ -	\$ (391)	\$ 1,183
Regional aircraft	461	46	-	-	(115)	392
Land and buildings	352	8	-	-	(29)	331
Right-of-use assets	\$ 1,964	\$ 477	\$ -	\$ -	\$ (535)	\$ 1,906
Property and equipment	\$ 11,907	\$ 2,796	\$ -	\$ (6)	\$ (1,648)	\$ 13,049



Depreciation and amortization recorded in the consolidated statement of operations is detailed as follows.

(Canadian dollars in millions)	2025	2024
Aircraft and flight equipment	\$ 1,163	\$ 1,023
Buildings and leasehold improvements	55	49
Ground and other equipment	59	41
Owned tangible assets	1,277	1,113
Air Canada aircraft	407	391
Regional aircraft	139	115
Land and buildings	31	29
Right-of-use assets	577	535
Property and equipment	1,854	1,648
Spare part and supplies inventory	20	15
Intangible assets	138	136
Depreciation and amortization	\$ 2,012	\$ 1,799



6. Intangible assets

(Canadian dollars in millions)

	International route rights and slots	Contract- based	Marketing- based trade names	Technology- based (internally developed)	Total
Year ended December 31, 2024					
At January 1, 2024	\$ 97	\$ 129	\$ 178	\$ 680	\$ 1,084
Additions	-	-	-	222	222
Amortization	-	(20)	-	(116)	(136)
At December 31, 2024	\$ 97	\$ 109	\$ 178	\$ 786	\$ 1,170
At December 31, 2024					
Cost	\$ 97	\$ 225	\$ 178	\$ 1,425	\$ 1,925
Accumulated amortization	-	(116)	-	(639)	(755)
	\$ 97	\$ 109	\$ 178	\$ 786	\$ 1,170
Year ended December 31, 2025					
At January 1, 2025	\$ 97	\$ 109	\$ 178	\$ 786	\$ 1,170
Additions	-	-	-	233	233
Amortization	-	(19)	-	(119)	(138)
At December 31, 2025	\$ 97	\$ 90	\$ 178	\$ 900	\$ 1,265
At December 31, 2025					
Cost	\$ 97	\$ 225	\$ 178	\$ 1,580	\$ 2,080
Accumulated amortization	-	(135)	-	(680)	(815)
	\$ 97	\$ 90	\$ 178	\$ 900	\$ 1,265

In 2025, technology-based assets with cost and accumulated amortization of \$78 million (2024 – \$56 million) were retired.

International route rights and slots are pledged as security for Senior Secured Notes and debt as described in Note 8.



Impairment Assessment of Indefinite Lived Intangibles

Due to the recoverable amount of both cash-generating units exceeding their respective carrying values by an aggregate amount of approximately \$13 billion, the most recent calculation from the 2024 period was carried forward and used in the impairment test in the current period. Management considered reasonably possible changes in key assumptions using multiple modelling scenarios and sensitivity analysis and determined such changes would not cause the recoverable amount of each CGU to be less than their respective carrying value. In addition, management has updated the impairment review to take into account the most recent projections from Air Canada's annual business plan and these did not impact this conclusion.

The assessment of the recoverable amount of Air Canada's cash-generating units compared to their carrying values was performed based on cash flow projections prepared in 2024. This review was performed in conjunction with the annual impairment review conducted on all intangible assets that have an indefinite life. The allocation of the indefinite lived intangible assets to the cash-generating units was \$172 million to wide-body aircraft and \$103 million to narrow-body aircraft. The recoverable amount of the cash-generating units was measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model would represent a level 3 fair value measurement within the IFRS 13 fair value hierarchy. The cash flows are management's best projections using current and anticipated market conditions covering a five-year period.

Key assumptions used for the fair value less cost to dispose calculations in fiscal 2024 were as follows:

Key Assumption	2024	Approach used to determine values
Average discount rate	8.89%	Derived from market participant assumptions regarding Air Canada's weighted average cost of capital adjusted for taxes and specific risks applicable to each cash-generating unit being tested. Inputs to the various scenarios ranged from 9.14%-10.64% for the wide-body CGU and 7.14%-8.64% for the narrow-body CGU.
Long-term growth rate	2.5%	Cash flows beyond the five-year period are projected to increase at 2.5% consistent with the long-term growth assumption of the airline industry considering various factors such as Air Canada's fleet plans and industry growth assumptions.
Jet fuel price range per barrel	US\$103 – US\$114	Jet fuel prices are assumed to follow the global market and represent management's best estimate of the range of future market conditions. Emerging issues in climate-related matters, such as change in regulations, may impact this assumption in future years.

7. Goodwill

Goodwill is tested at least annually for impairment. Goodwill is tested for impairment using the fair value less cost to dispose model at the operating segment level. Air Canada is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions, and it is the lowest level at which goodwill is monitored for internal management purposes.

In assessing the goodwill for impairment, Air Canada compares the aggregate recoverable amount consisting of the sum of its quoted equity market capitalization and the fair value of its debt to the carrying value of its net assets excluding long-term debt. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition, including as a result of the reviews performed as at December 31, 2025 and 2024. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.



8. Long-term debt and lease liabilities

	Final Maturity	Weighted Average Interest Rate (%)	December 31, 2025 (Canadian dollars in millions)	December 31, 2024 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2026 – 2030	5.29	\$ 2,138	\$ 2,930
Floating rate U.S. dollar financing	2027	6.21	192	263
Fixed rate CDN dollar financing	2026 – 2030	3.78	131	147
Floating rate CDN dollar financing	2036 – 2037	3.98	227	-
Fixed rate Japanese yen financing	2027	1.84	103	107
Convertible notes (b)	2025	4.00	-	381
Credit facility – CDN dollar (c)	2028	1.21	1,172	1,131
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar (d)	2026	3.88	1,647	1,726
Senior secured credit facility – U.S. dollar (d)	2031	5.72	1,554	1,641
Long-term debt		4.37	9,164	10,326
Lease liabilities				
Air Canada aircraft	2026 – 2037	5.81	1,591	1,381
Regional aircraft	2026 – 2035	5.15	446	619
Land and buildings	2026 – 2078	5.30	435	433
Lease liabilities (e)		5.60	2,472	2,433
Total debt and lease liabilities excluding unamortized debt issuance costs and discounts		4.63	11,636	12,759
Unamortized debt issuance costs and discounts			(60)	(89)
Total debt and lease liabilities			11,576	12,670
Current portion – Long-term debt			(2,429)	(1,163)
Current portion – Air Canada aircraft			(454)	(411)
Current portion – Regional aircraft			(53)	(153)
Current portion – Land and buildings			(31)	(28)
Total current portion			(2,967)	(1,755)
Long-term debt and lease liabilities			\$ 8,609	\$ 10,915

(a) Aircraft financing (US\$1,698 million, CDN \$358 million and JPY ¥11,749 million) (2024 – US\$2,220 million, CDN \$147 million and JPY ¥11,743 million) is secured primarily by specific aircraft with a carrying value of \$2,989 million (2024 – \$3,585 million). For the majority of the financing, principal and interest is repayable quarterly until maturity and can be repaid at any time with the payment of applicable fees. US\$9 million of the financing is supported by a loan guarantee by the Export-Import Bank of the United States.

In October 2024, Air Canada received a loan commitment from Export Development Canada of up to US\$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft, which are expected to be delivered no later than October 2027. In September 2025, Air Canada drew down \$231 million under this facility for 5 A220 aircraft which had been previously delivered. Loans for each aircraft have a final maturity date of 12 years after delivery. Interest rates are floating and are term CORRA plus a margin of 1.73%.



(b) In June 2020, Air Canada closed US\$748 million (\$1,011 million) of convertible unsecured notes ("Convertible Notes"), for net proceeds of \$986 million. The conversion rate of the Convertible Notes was 65.1337 shares per US\$1,000 principal amount of Convertible Notes, or a conversion price of approximately US\$15.35 per share, subject to adjustment in certain events in accordance with the indenture.

In 2022, Air Canada repurchased \$635 million (US\$473 million) aggregate principal amount of its outstanding Convertible Notes. As at December 31, 2024, \$394 million (US\$274 million) aggregate principal amount of Convertible Notes remained outstanding.

The convertible notes were settled with cash following their maturity on July 1, 2025. Air Canada's option to deliver cash or a combination of cash and shares on the conversion date in lieu of shares (based on the daily conversion values for 40 consecutive trading days) gave rise to an embedded derivative financial liability measured separately at fair value through profit or loss. At maturity, the fair value of the embedded derivative was nil (December 31, 2024 - \$45 million) and Air Canada recorded a gain of \$45 million for the year ended December 31, 2025 (\$11 million gain for the year 2024). Refer to Note 16.

(c) Government of Canada unsecured credit facility to support customer refunds of non-refundable tickets in 2021. The facility has a seven-year term maturing April 2028 with a stated annual interest rate of 1.211%, with the balance due on maturity. The carrying value of the debt was recognized at inception using an effective interest rate of 4.90%. The difference accretes the carrying value of the underlying debt upwards to its face value of \$1,273 million using the effective interest rate method.

(d) In August 2021, Air Canada completed a private offering of \$2.0 billion of 4.625% senior secured notes due in 2029 (the "Canadian Dollar Notes") and US\$1.2 billion of 3.875% senior secured notes due in 2026 (the "US Dollar Notes", and together with the Canadian Dollar Notes, the "Senior Secured Notes").

In March 2024, Air Canada entered into US\$2.15 billion senior secured credit facilities, comprised of a US\$1.175 billion term loan B maturing in 2031 and a US\$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US\$1.09 billion, were applied to refinance all of Air Canada's indebtedness outstanding under its previous US\$2.265 billion term loan B maturing in 2028. The term loan B had interest at SOFR (Secured Overnight Financing Rate) plus 250 basis points. The US\$975 million revolving credit facility is undrawn as of December 31, 2025. Air Canada recorded a loss of \$46 million on debt settlements related to the write-off of unamortized debt issuance costs associated with the extinguished debt instruments in 2024.

In November 2024, Air Canada completed a repricing of its US\$1.175 billion term loan B, reducing the interest rate by 50 basis points, to an interest rate of 2% over SOFR. Air Canada recorded a \$38 million gain on debt modification related to this transaction. In January 2026, the facility was increased by US\$200 million and repriced with a reduction to the interest rate by 25 basis points, to an interest rate of 1.75% over SOFR.

Air Canada's obligations under these senior credit facilities are senior secured obligations of Air Canada, secured on a first-lien basis, subject to certain permitted liens and exclusions, by certain collateral comprised of substantially all of Air Canada's international routes, airport slots and gate leaseholds.

(e) Lease liabilities, related to facilities and aircraft, total \$2,472 million (\$397 million, US\$1,497 million and GBP £10 million) (2024 - \$2,433 million (\$391 million, US\$1,404 million and GBP £12 million)). The carrying value of aircraft and facilities under lease liabilities amounted to \$1,936 million and \$332 million respectively (2024 - \$1,679 million and \$331 million).

Cash interest paid on Long-term debt and lease liabilities in 2025 by Air Canada was \$591 million (2024 - \$696 million).

Air Canada has recorded Interest expense as follows:

(Canadian dollars in millions)	2025	2024
Interest on debt	\$ 522	\$ 621
Interest on lease liabilities		
Air Canada aircraft	92	82
Regional aircraft	27	36
Land and buildings	22	24
Interest expense	\$ 663	\$ 763

The consolidated statement of operations includes the following amounts related to leases which have not been recorded as right-of-use assets and lease liabilities.

(Canadian dollars in millions)	2025	2024
Short-term leases	\$ 11	\$ 16
Variable lease payments not included in lease liabilities	65	65
Expense related to leases (included in Other operating expenses)	\$ 76	\$ 81

Total cash outflows for payments on lease liabilities was \$749 million for the year ended December 31, 2025 (2024 - \$678 million), of which \$608 million was for principal repayments (2024 - \$536 million).



Maturity Analysis

Principal and interest repayment requirements as at December 31, 2025 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the December 31, 2025 closing rate of CDN\$1.37.

Principal

(Canadian dollars in millions)

	2026	2027	2028	2029	2030	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 2,429	\$ 1,068	\$ 1,389	\$ 2,313	\$ 452	\$ 1,644	\$ 9,295
Air Canada aircraft	454	297	241	153	111	335	1,591
Regional aircraft	53	41	40	40	40	232	446
Land and buildings	31	31	30	23	21	299	435
Lease liabilities	538	369	311	216	172	866	2,472
Total long-term debt and lease liabilities	\$ 2,967	\$ 1,437	\$ 1,700	\$ 2,529	\$ 624	\$ 2,510	\$ 11,767

Interest

(Canadian dollars in millions)

	2026	2027	2028	2029	2030	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 382	\$ 285	\$ 316	\$ 499	\$ 101	\$ 40	\$ 1,623
Air Canada aircraft	84	62	46	32	23	56	303
Regional aircraft	21	19	17	14	12	30	113
Land and buildings	22	20	18	17	16	189	282
Lease liabilities	127	101	81	63	51	275	698
Total long-term debt and lease liabilities	\$ 509	\$ 386	\$ 397	\$ 562	\$ 152	\$ 315	\$ 2,321

(1) The full principal balance of \$1,273 million for the unsecured credit facility due in 2028 and \$1,584 million (US\$1,154 million) for the term loan B maturing in 2031 is included and the carrying value is described in Note 8 (c) and 8(d), respectively.

Principal repayments in the table above exclude discounts and transaction costs of \$60 million which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.



Cash Flows from Financing Activities

Information on the change in liabilities for which cash flows have been classified as financing activities in the statement of cash flows is presented below.

	Cash Flows				Non-Cash Changes			
	Jan. 1, 2025	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	Dec. 31, 2025
(Canadian dollars in millions)								
Long-term debt	\$ 10,326	\$ 231	\$ (1,136)	\$ -	\$ (317)	\$ 60	\$ -	\$ 9,164
Air Canada aircraft	1,381	-	(428)	-	(75)	-	713	1,591
Regional aircraft	619	-	(150)	-	(25)	-	2	446
Land and buildings	433	-	(30)	-	-	-	32	435
Lease liabilities	2,433	-	(608)	-	(100)	-	747	2,472
Unamortized debt issuance costs and other adjustments	(89)	-	-	-	-	29	-	(60)
Total liabilities from financing activities	\$ 12,670	\$ 231	\$ (1,744)	\$ -	\$ (417)	\$ 89	\$ 747	\$ 11,576

	Cash Flows				Non-Cash Changes			
	Jan. 1, 2024	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	Dec. 31, 2024
(Canadian dollars in millions)								
Long-term debt	\$ 11,455	\$ 1,590	\$ (3,420)	\$ -	\$ 589	\$ 112	\$ -	\$ 10,326
Air Canada aircraft	1,377	-	(363)	-	113	-	254	1,381
Regional aircraft	711	-	(146)	-	54	-	-	619
Land and buildings	449	-	(27)	-	2	-	9	433
Lease liabilities	2,537	-	(536)	-	169	-	263	2,433
Unamortized debt issuance costs and other adjustments	(130)	-	-	(34)	-	75	-	(89)
Total liabilities from financing activities	\$ 13,862	\$ 1,590	\$ (3,956)	\$ (34)	\$ 758	\$ 187	\$ 263	\$ 12,670



9. Pensions and other benefit liabilities

Air Canada maintains several defined benefit and defined contribution pension plans, as well as other post-retirement and post-employment benefit plans.

Air Canada is the administrator and sponsoring employer of several domestic registered plans ("Domestic Registered Plans") with defined benefit commitments registered under the Pension Benefits Standard Act, 1985 (Canada). The defined benefit components of the Domestic Registered Plans are closed to new members, except for the hybrid component of some plans which are open to new members. Air Canada also has a U.S. plan and a Japan plan, which are international defined benefit plans covering members in those countries. In addition, Air Canada maintains a number of supplementary pension plans which are not registered. The defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and final average earnings for a specified period. Assets are held in trust and used for benefit payments, and there are also a number of unfunded plans where Air Canada meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by regulations. The governance of the plans, overseeing all aspects of the plans including investment decisions and contributions, lies primarily with Air Canada. The Human Resources, Compensation and Pension Committee, a committee of the Board of Directors, assists in the monitoring and oversight of the plans to ensure pension liabilities are appropriately funded, pension assets are prudently invested, risk is managed at an acceptable level and retirement benefits are administered in a proper and effective manner.

Other employee benefits include health, life and disability. These benefits consist of both post-employment and post-retirement benefits. The post-employment benefits relate to disability benefits available to eligible active employees, while the post-retirement benefits are comprised of health care and life insurance benefits available to eligible retired employees.

Pension Plan Cash Funding Obligations

As at January 1, 2025, the aggregate solvency surplus in the Domestic Registered Plans was \$4.4 billion which takes into account certain plan amendments made in conjunction with the Air Line Pilots Association (ALPA) and the Canadian Union of Public Employees (CUPE) collective agreements. The next required valuation to be made as at January 1, 2026 will be completed in the first half of 2026. With Air Canada's Domestic Registered Plans in a solvency surplus position as at January 1, 2025, past service contributions were not required in 2025. In addition, in accordance with legislation and applicable plan rules, the excess over 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contributions to a defined contribution component within the same pension plan. Based on that, and including the international and supplemental plans, the total employer pension funding contributions during 2025 amounted to \$72 million (net employer contributions of \$39 million reflect the \$33 million of surplus used to fund employer contributions in defined contribution components of the same plans). Pension funding contributions for 2026 are expected to be \$73 million.

Benefit Obligations and Plan Assets

These consolidated financial statements include all the assets and liabilities of all Air Canada-sponsored plans. The amounts recorded in the statement of financial position are as follows:

	Pension Benefits		Other Employee Future Benefits		Total	
	2025	2024	2025	2024	2025	2024
(Canadian dollars in millions)						
Non-current assets						
Pension assets	\$ 2,513	\$ 2,535	\$ -	\$ -	\$ 2,513	\$ 2,535
Current liabilities						
Accounts payable and accrued liabilities	-	-	67	65	67	65
Non-current liabilities						
Pension and other benefit liabilities	553	830	981	1,012	1,534	1,842
Net benefit assets (obligations)	\$ 1,960	\$ 1,705	\$ (1,048)	\$ (1,077)	\$ 912	\$ 628

The current portion of the net benefit obligation represents an estimate of other employee future benefits claims to be paid during 2026.



The following table presents financial information related to the changes in the pension and other post-employment benefits plans:

	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
<small>(Canadian dollars in millions)</small>				
Change in benefit obligations				
Benefit obligations at beginning of year	\$ 18,421	\$ 18,309	\$ 1,077	\$ 1,098
Current service cost	195	190	22	25
Past service cost (a)	155	490	2	(2)
Interest cost	858	845	51	51
Employees' contributions	69	76	-	-
Benefits paid	(1,033)	(1,027)	(54)	(43)
Effect of transfers	-	23	-	-
Settlement payments for UK plan	-	(283)	-	-
Remeasurements:				
Experience loss (gain)	(36)	(33)	4	(18)
Gain from change in demographic assumptions	(171)	(14)	(13)	(27)
Gain from change in financial assumptions	(448)	(194)	(34)	(19)
Foreign exchange loss (gain)	(11)	39	(7)	12
Total benefit obligations	17,999	18,421	1,048	1,077
Change in plan assets				
Fair value of plan assets at beginning of year	22,061	21,949	-	-
Return on plan assets, excluding amounts included in Net financing expense	481	258	-	-
Interest income	1,023	1,005	-	-
Employer contributions	39	72	54	43
Employees' contributions	69	76	-	-
Benefits paid	(1,033)	(1,027)	(54)	(43)
Settlement payments for UK plan	-	(300)	-	-
Administrative expenses paid from plan assets	(9)	(8)	-	-
Foreign exchange gain (loss)	(9)	36	-	-
Total plan assets	22,622	22,061	-	-
Surplus (deficit) at end of year	4,623	3,640	(1,048)	(1,077)
Asset ceiling / additional minimum funding liability	2,663	1,935	-	-
Net benefit assets (obligations)	\$ 1,960	\$ 1,705	\$ (1,048)	\$ (1,077)

The actual return on plan assets was a gain of \$1,504 million (2024 – \$1,263 million gain).

The buy-out transaction for the annuity contract for the UK plan defined benefit pension obligation was completed in 2024 and therefore is no longer included in the plan assets or obligation.



The pension benefit deficit of only those plans that are not fully funded is as follows:

(Canadian dollars in millions)	2025	2024
Domestic Registered Plans	\$ 10	\$ 7
International plans	34	51
Supplementary plans	509	772
	\$ 553	\$ 830

The weighted average duration of the defined benefit obligation is 12.3 years (2024 – 12.6 years).

Pension and Other Employee Future Benefit Expense

Air Canada has recorded net defined benefit pension and other employee future benefits expense as follows:

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
Consolidated Statement of Operations				
Components of cost				
Current service cost	\$ 195	\$ 190	\$ 22	\$ 25
Past service cost (a)	155	490	2	(2)
Administrative and other expenses	9	8	-	-
Actuarial losses (gains), including foreign exchange	-	-	3	(6)
Total cost recognized in Wages, salaries and benefits	\$ 359	\$ 688	\$ 27	\$ 17
Net interest relating to employee benefits in Non-operating-other	\$ (75)	\$ (74)	\$ 51	\$ 52
Total cost recognized in statement of operations	\$ 284	\$ 614	\$ 78	\$ 69
Consolidated Other Comprehensive (Income) Loss				
Remeasurements:				
Experience loss (gain), including foreign exchange	(38)	(30)	(5)	(4)
(Gain) from change in demographic assumptions	(171)	(14)	(13)	(27)
Loss (gain) from change in financial assumptions	(448)	(194)	(34)	(15)
Return on plan assets	(489)	(258)	-	-
Change in asset ceiling	637	(46)	-	-
Total cost (income) recognized in OCI	\$ (509)	\$ (542)	\$ (52)	\$ (46)



a) In August 2025, Air Canada reached a tentative four-year collective agreement with CUPE, the union representing its flight attendants, which was not ratified. Air Canada and CUPE had contemplated the possibility that the agreement might not be ratified and determined the wage portion of the tentative agreement would go to mediation and, if a deal still could not be reached, to binding arbitration. All other items, such as ground pay, improvements to benefits, pensions and scheduling rules, were to be implemented without the need for mediation or arbitration, in accordance with the terms of the agreement. On September 12, 2025, CUPE asked to dispense with mediation and proceed directly to binding arbitration for the wage portion, to which Air Canada consented. Any change in wages that is determined during arbitration will be retroactive to April 1, 2025. In this regard, Air Canada recorded a one-time pension past service cost of \$149 million in 2025 to reflect pension changes included in the tentative agreement as they are now in effect. Some of these changes are conditional on future pension solvency financial positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. The net impact of these changes will be funded out of the surplus in the flight attendants' domestic registered pension plans and are not expected to impact Air Canada's liquidity position.

In addition, other labour related charges of \$45 million were recorded by Air Canada in 2025.

In September 2024, Air Canada concluded a four-year collective agreement with ALPA which was effective as of September 30, 2023 and ratified in October 2024. Upon ratification, Air Canada recorded a one-time pension past service cost of \$490 million in the fourth quarter of 2024 to reflect changes included in the new collective agreement. Some of these changes are conditional on future pension solvency financial position. Changes in assumptions associated with these conditional increases are recognized in other comprehensive income as actuarial gains and losses. The net impact of these changes are funded out of the surplus in the Pilots' domestic registered pension plan and are not expected to impact Air Canada's liquidity position.

The funding of employee benefits as compared to the expense recorded in the consolidated statement of operations is summarized in the table below.

(Canadian dollars in millions)	2025	2024
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations		
Wages, salaries and benefits	\$ 386	\$ 705
Net interest relating to employee benefit liabilities	(24)	(22)
	\$ 362	\$ 683
Employee benefit funding by Air Canada		
Pension benefits	\$ 39	\$ 72
Other employee benefits	54	43
	\$ 93	\$ 115
Employee benefit funding less than expense	\$ 269	\$ 568

Composition of Defined Benefit Pension Plan Assets

Domestic Registered Plans

The composition of the Domestic Registered Plan assets is the following:

	2025	2024
Fixed income investments	56%	54%
Canadian equities	2%	2%
Foreign equities	3%	3%
Alternative investments	39%	41%
	100%	100%

Approximately 61% of the Domestic Registered Plan assets as of December 31, 2025 have a quoted market price in an active market. Assets that do not have a quoted market price in an active market are mainly investments in privately held entities. The asset composition in the table represents the allocation of plan assets to each asset type.

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2024 – 17,646,765) shares of Air Canada which were issued to a trust in 2009 in connection with pension funding agreements reached with all of Air Canada's Canadian-based unions. The trust arrangement provides that proceeds of any sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize. With Air Canada's Domestic Registered Plans now in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust have a fair value of \$340 million at December 31, 2025 (2024 – \$393 million), although after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If certain conditions are met, the trust would gradually sell shares up to the end of 2037, and the net proceeds from these sales would be used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. There are several conditions to the completion of the agreement in principle and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. The financial statements do not reflect any accounting consequences related to this, as these would only be determined upon the conditions and required approvals being met.

The investments of the Domestic Registered Defined Benefit Plans, conform to their Statement of Investment Policies and Procedures (SIP&P). As permitted under the SIP&P, the actual asset mix may deviate from the target allocation from time to time. The investment return objective is to achieve a total annualized rate of return that exceeds by a minimum of 1.0% before investment fees on average over the long term (i.e. 10 years) the total annualized return that could have been earned by passively managing the Liability Replicating Portfolio. The Liability Replicating Portfolio, which is referenced to widely used Canadian fixed income indices (FTSE Canada), closely matches the characteristics of the pension liabilities.



Recognizing the importance of surplus risk management, Air Canada manages the Domestic Registered Defined Benefit Plans in an effort to mitigate surplus risk (defined as the difference between asset value and pension liability value), which is considered to be the key risk to be minimized and monitored. In addition, the objective of the investment strategy is to invest the plan assets in a prudent and diversified manner to mitigate the risk of price fluctuation of asset classes and individual investments within those asset classes and to combine those asset classes and individual investments in an effort to reduce overall risk.

In addition to the broad asset allocation, as summarized in the asset allocation section above, the following policies apply to individual asset classes invested within the pension funds:

- The fixed income portfolio is oriented toward long-term investment grade securities rated “BBB” or higher, with the exception of Government of Canada securities, or those of a province thereof or of the U.S. Government, in which the plan may invest the entire fixed income allocation.
- Within the broad equity portfolio (Canadian and foreign equities), limitations are placed on the allocation to any individual security.
- Alternative investments are investments in non-publicly traded securities and in non-traditional asset classes. They may comprise, but are not limited to, investments in real estate, agriculture, timber, private equity, venture capital, infrastructure, emerging markets debt, high yield bonds and commodity futures. The Alternative investments portfolio is required to be diversified by asset class, strategy, sector and geography.

As at December 31, 2025, approximately 92% of Air Canada’s Domestic Registered Defined Benefit Plans’ assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk related to its actuarial liabilities. This comprises a combination of financial instruments including, but not limited to, bonds, bond repurchase and reverse repurchase agreements, bond forwards, bond futures and interest rate swaps.

Derivatives are permitted provided that they are used for managing a particular risk (including interest rate risk related to pension liabilities) or to create exposures to given markets and currencies. Counterparty credit risk associated with such financial instruments is mitigated by receiving collateral from counterparties based on collateralization agreements, as well as by monitoring the counterparties’ credit ratings (minimum credit rating of A) and ensuring compliance with the SIP&P. The fair value of these derivative instruments is included in the fixed income investments in the asset composition table and is not a significant component of the fixed income fair values of the portfolio.

The trusts for the supplemental plans are invested 50% in a mix of indexed equity investments and alternative investments, in accordance with their applicable SIP&P, with the remaining 50% held by the Canada Revenue Agency as a refundable tax, in accordance with tax legislation. Due to unrealized gains and losses on invested assets, the market value of assets could deviate from this allocation from time to time.

Risks

Through its defined benefit pension plans, Air Canada is exposed to a number of risks, the most significant of which are detailed below:

Asset risk

Asset risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Asset risk comprises currency risk, credit risk, and other price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is mitigated through implementation of hedging strategies. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is mitigated by receiving collateral from counterparties based on collateralization agreements and by monitoring the issuers’ credit risk. Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is mitigated through proper diversification of plan assets.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans’ bond holdings. As at December 31, 2025, approximately 92% of Air Canada’s Domestic Registered Defined Benefit Plans’ assets were invested in fixed income instruments to mitigate a significant portion of the interest rate risk (discount rate risk).

Funding risk

Adverse changes in the value of plan assets or in interest rates, and therefore in the discount rate used to value liabilities, could have a significant impact on pension plan solvency valuations and future cash funding requirements.

Life expectancy

The majority of the plans’ obligations are to provide benefits for the life of members, so increases in life expectancy will result in an increase in the plans’ liabilities.



Assumptions

Management is required to make estimates about actuarial and financial assumptions to determine the cost and related liabilities of Air Canada's employee future benefits.

Discount Rate

The discount rate used to determine the pension obligation was determined by reference to market interest rates on corporate bonds rated "AA" or better with cash flows that approximate the timing and amount of expected benefit payments.

Future Increases in Compensation

Estimates surrounding assumptions of future increases in compensation are based upon the current compensation policies, Air Canada's long-range plans, labour and employment agreements and economic forecasts.

Mortality Assumptions

Mortality tables and improvement scales issued by the Canadian Institute of Actuaries (revised in 2014) were taken into account in selecting management's best estimate mortality assumption used to calculate the accrued benefit obligation as at December 31, 2025 and 2024.

The weighted average assumptions used to determine Air Canada's accrued benefit obligations and cost are as follows:

	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	4.70%	4.64%	4.70%	4.64%
Service cost for the year ended December 31	4.80%	4.65%	4.80%	4.65%
Accrued benefit obligation as at December 31	4.98%	4.70%	4.98%	4.70%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.75%	2.75%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.75%	Not applicable	Not applicable

Sensitivity Analysis

Sensitivity analysis is based on changing one assumption while holding all other assumptions constant. In practice, this may be unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position.

Sensitivity analysis on 2025 pension expense, net interest relating to pension benefit liabilities and pension obligation, based on different actuarial assumptions with respect to discount rate is set out below. The effects on each pension plan of a change in an assumption are weighted proportionately to the total plan obligation to determine the total impact for each assumption presented.

(Canadian dollars in millions)	0.25 Percentage Point	
	Decrease	Increase
Discount rate on obligation assumption		
Pension expense	\$ 20	\$ (19)
Net interest relating to pension benefit liabilities	12	(6)
	\$ 32	\$ (25)
Increase (decrease) in pension obligation	\$ 564	\$ (536)

The increase (decrease) in the pension obligation for a 0.25 percentage point change in the discount rate relates to the gross amount of the pension liabilities and is before the impact of any change in plan assets. As at December 31, 2025, approximately 92% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk.

An increase of one year in life expectancy would increase the pension benefit obligation by \$422 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2025 and thereafter, unchanged from the 2024 assumption. A one percentage point increase in assumed health care trend rates would have increased the total of current service and interest costs by \$4 million and the obligation by \$74 million. A one percentage point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by \$4 million and the obligation by \$78 million.



A 0.25 percentage point decrease in discount rate for other employee future benefits would have increased the total of current and interest costs by less than \$1 million and the obligation by \$35 million. A 0.25 percentage point increase in discount rate would have decreased the total of current and interest costs by less than \$1 million and the obligation by \$33 million.

Defined Contribution Pension Plans

Certain of Air Canada's management, administrative and unionized employees participate in a defined contribution pension plan, a defined contribution component of a plan which also includes a defined benefit component or a multi-employer plan which are accounted for as defined contribution plans. Air Canada contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group and for some groups, based on the number of years of service. As permitted by legislation and applicable plan rules, surplus in the defined benefit component can be used to cover the employer contributions in the defined contribution component of such plan. As such, \$33 million of surplus in the defined benefit components of the Domestic Registered Plans was used to cover the employer contributions in the defined contribution components during 2025 (2024 – \$30 million).

Air Canada's expense for these pension plans amounted to \$140 million for the year ended December 31, 2025 (2024 – \$115 million). Net of the surplus in the defined benefit components which can be used to fund the employer contribution to a defined contribution component within the same pension plan, expected total employer contributions for 2026 are \$111 million.

10. Provisions for other liabilities

The following table provides a continuity schedule of all recorded provisions. Current provisions are recorded in Accounts payable and accrued liabilities.

(Canadian dollars in millions)	Maintenance (a)	Asset retirement (b)	Litigation	Total provisions
At December 31, 2024				
Current	\$ 242	\$ 34	\$ 53	\$ 329
Non-current	1,431	35	-	1,466
	\$ 1,673	\$ 69	\$ 53	\$ 1,795
Provisions arising during the year	\$ 176	\$ -	\$ 15	\$ 191
Amounts utilized	(145)	-	(1)	(146)
Changes in estimated costs	(30)	1	-	(29)
Accretion expense	67	1	-	68
Foreign exchange gain	(86)	-	-	(86)
At December 31, 2025	\$ 1,655	\$ 71	\$ 67	\$ 1,793
Current	\$ 314	\$ 34	\$ 67	\$ 415
Non-current	1,341	37	-	1,378
	\$ 1,655	\$ 71	\$ 67	\$ 1,793

- (a) Maintenance provisions relate to the provision for the costs to meet the contractual return conditions on aircraft under operating leases. The provision relates to leases with expiry dates ranging from 2026 to 2036 with the average remaining lease term of approximately 3 years. The maintenance provisions take into account current costs of maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Assuming the aggregate cost for return conditions increases by 5%, holding all other factors constant, there would be a cumulative balance sheet adjustment to increase the provision by \$82 million at December 31, 2025 and an increase to maintenance expense in 2026 of approximately \$9 million. Expected future cash flows to settle the obligation are discounted. If the discount rates were to increase by 1%, holding all other factors constant, there would be a cumulative balance sheet adjustment to decrease the provision by \$23 million at December 31, 2025. An equivalent but opposite movement in the discount rate would result in a similar impact in the opposite direction.
- (b) Under the terms of certain land and facilities leases, Air Canada has an obligation to restore the land to vacant condition at the end of the lease and to rectify any environmental damage for which it is responsible. The related leases expire over terms ranging from 2026 to 2078. These provisions are based on numerous assumptions including the overall cost of decommissioning and remediation and the selection of alternative decommissioning and remediation approaches. The non-current provision is recorded in Other long-term liabilities. A charge of \$34 million was recorded in 2024 in other operating expenses related to estimated costs related to contractual lease obligations.



11. Income taxes

Income Tax Recovery (Expense)

Income tax recorded in the consolidated statement of operations is presented below.

(Canadian dollars in millions)	2025	2024
Current income tax recovery (expense)	\$ (19)	\$ (30)
Deferred income tax recovery (expense)	(126)	1,235
Income tax recovery (expense)	\$ (145)	\$ 1,205

For the year ended December 31, 2024, Air Canada recognized in the consolidated statement of operations \$1,503 million) of previously unrecognized deferred income tax assets, and (\$268) million related to the origination and reversal of temporary differences. Refer to Deferred income tax section below for additional information on the recognition of deferred income tax assets.

The income tax recovery (expense) differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

(Canadian dollars in millions)	2025	2024
Income before income taxes	\$ 789	\$ 515
Statutory income tax rate based on combined federal and provincial rates	26.53%	26.49%
Income tax (expense) recovery based on statutory tax rates	(209)	(136)
Effects of:		
Non-taxable (non-deductible) portion of capital gains (losses)	37	(70)
Recognition of deferred income tax assets	-	1,503
Recognition of (unrecognized) capital losses	37	(69)
Non-deductible items	(18)	(30)
Other	8	7
Income tax recovery (expense)	\$ (145)	\$ 1,205

The applicable statutory tax rate is 26.53% (2024 – 26.49%). Air Canada's applicable tax rate is the Canadian combined tax rate applicable in the jurisdiction in which Air Canada operates. The income tax recovery in the consolidated statement of operations differs from the amount that would have resulted from applying the statutory income tax rate to the income before income taxes in the consolidated statement of operations primarily due to recognizing only certain of the deferred income tax assets prior to the third quarter of 2024, as described further below.

Income tax recorded in the consolidated statement of comprehensive income is presented below.

(Canadian dollars in millions)	2025	2024
Remeasurements on employee benefit liabilities		
- current income tax expense	\$ (11)	\$ (1)
- deferred income tax expense	(141)	(287)
Remeasurements on fuel derivatives designated as cash flow hedge		
- deferred income tax recovery (expense)	1	-
Income tax (expense)	\$ (151)	\$ (288)

The income tax differs from the amount that would have resulted from applying the statutory income tax rate to other comprehensive income before income tax expense as follows:

(Canadian dollars in millions)	2025	2024
Other comprehensive income before income taxes	\$ 556	\$ 597
Statutory income tax rate based on combined federal and provincial rates	26.53%	26.49%
Income tax expense based on statutory tax rates	(148)	(158)
Non-taxable (non-deductible) portion of capital gain (capital loss)	-	1
Recognition of deferred income tax liability	-	(129)
Other	(3)	(2)
Income tax (expense)	\$ (151)	\$ (288)

Income tax recorded in shareholders' equity is presented below.

(Canadian dollars in millions)	2025	2024
Share based compensation		
- deferred income tax recovery	\$ -	\$ 19
Share issue cost		
- deferred income tax recovery	1	22
Income tax recovery	\$ 1	\$ 41



Deferred Income Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

In this regard and in connection with the preparation of the financial statements for the period ended September 30, 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets would be realized. Accordingly, previously unrecognized deferred income tax assets of \$1,056 million were recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of \$1,154 million, tax expense recorded in the consolidated statement of comprehensive income of \$139 million related to remeasurements on net employee benefit liabilities and tax recovery recorded in the consolidated statement of changes in equity of \$41 million.

As of December 31, 2025, deferred tax assets and liabilities of \$774 million are recorded net as a non-current deferred income tax asset on the consolidated statement of financial position. Certain intangible assets with nominal tax cost and a carrying value of \$275 million have indefinite lives and accordingly, the associated deferred income tax liability of \$73 million (2024 – \$73 million) is not expected to reverse until the assets are disposed of, become impaired or amortizable and as a result is included as part of the non-current deferred income tax liability.

The significant components of deferred income tax assets and liabilities were as follows:

<small>(Canadian dollars in millions)</small>	2025	2024
Deferred income tax assets		
Non-capital losses	\$ 1,964	\$ 1,951
Accounting provisions not currently deductible for tax	151	129
Investment tax credits and recoverable taxes	40	40
Lease liabilities	756	768
Maintenance provisions	439	443
Deferred revenue	156	192
	3,506	3,523
Deferred income tax liabilities		
Post-employment obligations – pension and other employee future benefits	(229)	(167)
Property, equipment, technology-based and other intangible assets	(2,455)	(2,253)
Indefinite-lived intangible assets	(73)	(73)
Other	(48)	(64)
	(2,805)	(2,557)
Net recognized deferred income tax assets	\$ 701	\$ 966
Balance sheet presentation		
Deferred income tax assets	774	1,039
Deferred income tax liabilities	(73)	(73)
Net recognized deferred income tax assets	\$ 701	\$ 966



The following table presents the variation of the components of deferred income tax balances:

(Canadian dollars in millions)

	January 1, 2025	2025 income statement movement	2025 OCI movement	2025 equity movement	December 31, 2025
Non-capital losses	\$ 1,951	13	-	-	\$ 1,964
Accounting provisions not currently deductible for tax	129	22	-	-	151
Investment tax credits and recoverable taxes	40	-	-	-	40
Lease liabilities	768	(12)	-	-	756
Maintenance provisions	443	(4)	-	-	439
Deferred revenues	192	(36)	-	-	156
Post-employment obligations – pension and other employee future benefits	(167)	79	(141)	-	(229)
Property, equipment, technology-based and other intangible assets	(2,253)	(202)	-	-	(2,455)
Indefinite-lived intangible assets	(73)	-	-	-	(73)
Other deferred tax assets (liabilities)	(64)	14	1	1	(48)
Total recognized deferred income tax assets (liabilities)	\$ 966	(126)	(140)	1	\$ 701

(Canadian dollars in millions)

	January 1, 2024	2024 income statement movement	2024 OCI movement	2024 equity movement	December 31, 2024
Non-capital losses	\$ 1,927	(16)	-	40	\$ 1,951
Accounting provisions not currently deductible for tax	7	122	-	-	129
Investment tax credits and recoverable taxes	-	40	-	-	40
Lease liabilities	783	(15)	-	-	768
Maintenance provisions	-	443	-	-	443
Deferred revenues	-	192	-	-	192
Post-employment obligations – pension and other employee future benefits	(460)	580	(287)	-	(167)
Property, equipment, technology-based and other intangible assets	(2,128)	(125)	-	-	(2,253)
Indefinite-lived intangible assets	(73)	-	-	-	(73)
Other deferred tax assets (liabilities)	(79)	14	-	1	(64)
Total recognized deferred income tax assets (liabilities)	\$ (23)	1,235	(287)	41	\$ 966



As at December 31, 2025, Air Canada has net capital losses carryforwards of approximately \$343 million available for income tax purposes as well as unrealized deductible foreign exchange losses and net capital losses of \$110 million, for which no deferred income tax asset has been recognized at this time as the ability to utilize these tax attributes is limited to future taxable capital gains. While the net capital losses remain available for use, the recognition criteria for accounting is not met at this time. Net capital losses do not have an expiry date.

The following are the temporary differences and tax loss carryforwards for which no deferred income tax assets could be recognized:

(Canadian dollars in millions)	2025	2024
Net capital losses carryforwards	343	241
Unrealized deductible foreign exchange losses and net capital losses	110	354
Total unrecognized net temporary differences	\$ 453	\$ 595
Deferred income tax rate based on combined federal and provincial rates	26.54%	26.49%
Total unrecognized net deferred income tax assets	\$ 120	\$ 158

The following are the Federal non-capital tax losses expiry dates:

(Canadian dollars in millions)	Tax Losses
2034	\$ 1
2040	1,389
2041	4,259
2042	1,621
2045	25
Non-capital losses carryforwards	\$ 7,295

Cash income taxes paid in 2025 by Air Canada were \$48 million (2024 – \$50 million recovered).

12. Share capital

	Number of shares	Value (Canadian dollars in millions)
At January 1, 2024	358,469,286	\$ 2,744
Shares issued on the exercise of stock options	41,536	1
Shares purchased and cancelled under issuer bid	(18,671,700)	(155)
Deferred tax asset recognition	-	22
At December 31, 2024	339,839,122	2,612
Shares issued on the exercise of stock options	145,571	3
Shares purchased and cancelled under issuer bid	(45,435,073)	(340)
At December 31, 2025	294,549,620	2,275

The issued and outstanding shares of Air Canada, along with the potential shares, were as follows:

	2025	2024
Issued and outstanding		
Class A variable voting shares	66,330,053	102,314,033
Class B voting shares	228,219,567	237,525,089
Total issued and outstanding	294,549,620	339,839,122
Potential shares		
Convertible notes	Note 8	-
Stock options	Note 13	17,856,599
	12,137,096	9,230,773
Total outstanding and potentially issuable shares	306,686,716	366,926,494

Shares

As at December 31, 2025, the shares issuable by Air Canada consist of an unlimited number of Class A Variable Voting Shares ("Variable Voting Shares") and an unlimited number of Class B Voting Shares ("Voting Shares"). The two classes of shares have equivalent rights as shareholders except for voting rights as explained below.

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the *Canada Transportation Act*). An issued and outstanding Variable Voting Share is converted into one Voting Share automatically and without any further act of Air Canada or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the *Canada Transportation Act*.



Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share is converted into one Variable Voting Share automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Air Canada's articles provide that holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Air Canada exceeds 49% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 49% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 49% of the aggregate votes attached to all issued and outstanding Voting Shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% of the votes that may be cast at such meeting. Air Canada's articles also provide for the automatic reduction of the voting rights attached to Variable Voting Shares in the event any of the following limits are exceeded. In such event, the votes attributable to Variable Voting Shares will be affected as follows:

- *first*, if required, a reduction of the voting rights of any single non-Canadian holder (including a single non-Canadian holder authorized to provide an air service) carrying more than 25% of the votes to ensure that such non-Canadian holder never carries more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders;
- *second*, if required and after giving effect to the first proration set out above, a further proportional reduction of the voting rights of all non-Canadian holders authorized to provide an air service to ensure that such non-Canadian holders authorized to provide an air service, in the aggregate, never carry more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders; and
- *third*, if required and after giving effect to the first two prorations set out above, a proportional reduction of the voting rights for all non-Canadian holders as a class to ensure that non-Canadians never carry, in aggregate, more than 49% of the votes which holders of Voting Shares cast at any meeting of shareholders.

Shareholder Rights Plan

Under the terms of the shareholder rights plan agreement (the "Rights Plan"), one right (a "Right") is issued with respect to each share of Air Canada issued and outstanding. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding shares of Air Canada calculated on a combined basis, without complying with the "Permitted Bid" provisions of the Rights Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the shares, are not exercisable and no separate rights certificates are issued. To qualify as a "Permitted Bid" under the Rights Plan, a bid must, among other things: (i) be made to all holders of shares, (ii) remain open for a period of not less than 105 days (or such shorter minimum period determined in accordance with National Instrument 62-104 – *Take-Over Bids and Issuer Bids* ("NI 62-104"), (iii) provide that no shares shall be taken up unless more than 50% of the then outstanding shares, other than the shares held by the person pursuing the acquisition and parties related to it, have been tendered and not withdrawn, and (iv) provide that if such 50% condition is satisfied, the bid will be extended for at least 10 days to allow other shareholders to tender.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Rights Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase from Air Canada two hundred dollars' worth of shares for one hundred dollars (i.e. at a 50% discount to the market price at that time). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Class B Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Class A Variable Voting Shares.

The renewal of the Rights Plan was ratified at Air Canada's 2023 annual meeting of shareholders. The Rights Plan remains in effect until the day immediately following Air Canada's 2026 annual meeting of shareholders. It could then be further renewed for an additional period of three years from 2026 to 2029 if the shareholders so choose at or prior to their 2026 annual meeting.

Convertible Notes

As described in Note 8, the convertible notes were settled with cash following their maturity on July 1, 2025. The conversion rate of the convertible notes was 65.1337 shares per US\$1,000 principal amount of convertible notes.



Normal Course Issuer Bids

In November 2024, Air Canada received approval from the Toronto Stock Exchange (“TSX”) to launch a normal course issuer bid allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 5, 2024 to November 4, 2025, up to 35,783,842 shares representing approximately 10% of the public float of its shares as at October 22, 2024.

In 2024, Air Canada purchased, for cancellation, 20,279,100 shares at an average cost of \$23.92 per share for aggregate consideration of \$485 million (of which 1,607,400 shares were cancelled in the first business days after December 31, 2024 related to administrative delay between purchase and cancellation in the books of the registrar). The excess of the cost over the book value of \$330 million was charged to Retained Earnings (deficit), together with \$10 million in share buyback tax.

In the first quarter of 2025, Air Canada purchased an additional 15,504,742 shares for aggregate consideration of \$315 million effectively purchasing the maximum amount of 35,783,842 shares available for purchase for cancellation under its Issuer Bid. The excess of the cost over the book value of \$196 million was charged to Retained earnings (deficit), together with \$6 million in share buyback tax.

In the fourth quarter of 2025, Air Canada received approval from the TSX to launch a normal course issuer bid allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 7, 2025 to November 6, 2026, up to 29,557,428 shares, representing about 10% of the public float of its shares as at October 24, 2025. In the fourth quarter of 2025, Air Canada purchased, for cancellation, 1,778,824 shares at an average cost of \$18.63 per share for aggregate consideration of \$33 million (of which 51,637 shares were cancelled in the first business days after December 31, 2025 related to administrative delay between purchase and cancellation in the books of the registrar). The excess of the cost over the book value of \$19 million was charged to Retained earnings (deficit), together with \$1 million in share buyback tax.

Substantial Issuer Bid

On May 8, 2025, Air Canada announced a substantial issuer bid (the “Offer”) pursuant to which Air Canada offered to purchase for cancellation up to \$500 million of its shares.

The Offer was made by way of a modified “Dutch auction” under which shareholders wishing to tender could do so through (i) an auction tender at a price not less than \$18.50 per Share and not more than \$21.00 per Share or (ii) a purchase price tender at the purchase price to be determined by the auction tenders.

A total of about 26.8 million shares were validly deposited in the Offer and not withdrawn pursuant to auction tenders at or below \$18.80 or purchase price tenders. As the Offer was oversubscribed, about 99.14% of the successfully tendered shares were taken up by Air Canada, in addition to “odd lot” tenders not subject to proration. On June 25, 2025, Air Canada purchased, for cancellation, 26,595,744 shares for \$18.80 per Share for aggregate consideration of \$500 million. The excess of the cost over the book value of \$294 million was charged to Retained earnings (deficit), together with \$10 million in share buyback tax.

13. Share-based compensation

Air Canada Long-term Incentive Plan

Certain of Air Canada’s employees participate in the Air Canada Long-term Incentive Plan which provides for the grant of stock options, performance share units and restricted share units to senior management and officers of Air Canada. With respect to the stock options, 1,894,088 shares are available for future grants of options under the Long-term Incentive Plan. The outstanding performance share units and restricted share units will generally not result in the issuance of new shares as these share units will be redeemed for shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of Air Canada.

Stock Options

The options to purchase shares granted under the Long-term Incentive Plan have a maximum term of up to ten years and an exercise price based on the fair market value of the shares at the time of the grant of the options. Fifty percent of options are time-based and vest over four years. The remaining options vest based upon performance conditions, which are based on operating margin (operating income over operating revenues) targets established by the Air Canada Board over the same time period. Each option entitles the employee to purchase one share at the stated exercise price.

The number of Air Canada stock options granted to employees, the related compensation expense recorded and the assumptions used to determine stock-based compensation expense, using the Black-Scholes option valuation model are as follows:

	2025	2024
Compensation expense (\$ millions)	\$ 18	\$ 16
Number of stock options granted to Air Canada employees	3,202,728	2,674,553
Weighted average fair value per option granted (\$)	\$ 5.76	\$ 6.59
Aggregated fair value of options granted (\$ millions)	\$ 18	\$ 18
Weighted average assumptions:		
Share price	\$ 16.94	\$ 18.23
Risk-free interest rate	2.48%-2.91%	2.72%-3.59%
Expected volatility	35.09%	36.20%
Dividend yield	0%	0%
Expected option life (years)	5.25	5.25

Expected volatility was determined at the time of grant using the share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.



A summary of the Long-term Incentive Plan option activity is as follows:

	2025		2024	
	Options	Weighted Average Exercise Price/Share	Options	Weighted Average Exercise Price/Share
Beginning of year	9,230,773	\$ 23.15	6,642,516	\$ 25.10
Granted	3,202,728	16.94	2,674,553	18.23
Exercised	(145,571)	11.74	(41,536)	14.79
Expired	(67,672)	30.21	(38,533)	26.83
Forfeited	(83,162)	18.12	(6,227)	20.03
Outstanding options, end of year	12,137,096	\$ 21.64	9,230,773	\$ 23.15
Options exercisable, end of year	5,283,587	\$ 26.31	3,960,001	\$ 27.27

The weighted average share price on the date of exercise for options exercised in 2025 was \$19.05 (2024 – \$21.20).

Range of Exercise Prices	Expiry Dates	2025 Outstanding Options			2025 Exercisable Options	
		Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$12.83 - \$26.40	2027	328,862	2	15.24	328,862	15.24
\$22.53 - \$27.75	2028	781,550	3	26.52	781,550	26.52
\$33.11 - \$43.22	2029	803,678	4	33.26	803,678	33.26
\$15.35 - \$32.42	2030	1,108,996	5	31.23	1,108,996	31.23
\$23.80 - \$26.93	2031	536,331	6	25.37	536,331	25.37
\$17.37 - \$24.61	2032	1,149,127	7	24.35	983,220	24.50
\$17.61 - \$24.19	2033	1,617,391	8	19.88	411,249	19.96
\$16.47 - \$18.32	2034	2,637,637	9	18.23	329,701	18.23
\$14.07 - \$17.03	2035	3,173,524	10	16.94	-	-
		12,137,096		\$ 21.64	5,283,587	\$ 26.31

Range of Exercise Prices	Expiry Dates	2024 Outstanding Options			2024 Exercisable Options	
		Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$9.41	2026	68,498	2	9.41	68,498	9.41
\$12.83 - \$26.40	2027	403,631	3	14.95	403,631	14.95
\$22.53 - \$27.75	2028	787,654	4	26.52	787,654	26.52
\$33.11 - \$43.22	2029	827,385	5	33.27	827,385	33.27
\$15.35 - \$32.42	2030	1,133,935	6	31.25	1,120,335	31.44
\$23.80 - \$26.93	2031	541,757	7	25.37	251,122	25.39
\$17.37 - \$24.61	2032	1,162,376	8	24.30	289,449	24.34
\$17.61 - \$24.19	2033	1,630,984	9	19.88	211,927	20.06
\$16.47 - \$18.32	2034	2,674,553	10	18.23	-	-
		9,230,773		\$ 23.15	3,960,001	\$ 27.27



Performance and Restricted Share Units

The Long-term Incentive Plan also includes performance share units (“PSUs”) and restricted share units (“RSUs”). 75% of PSUs granted vest based on Air Canada achieving its cumulative annual earnings target over a three-year period, while 25% of PSUs vest based on relative total shareholder returns over the same three-year period. RSUs vest after three years from their date of grant. The PSUs and RSUs granted are generally redeemed for Air Canada shares purchased on the secondary market and/or equivalent cash at the discretion of the Board of Directors.

The compensation expense related to PSUs and RSUs in 2025 was \$27 million (2024 – \$35 million).

A summary of the Long-term Incentive Plan share unit activity is as follows:

	2025	2024
Beginning of year	5,218,941	4,034,091
Granted	2,353,916	2,104,796
Settled	(1,141,184)	(801,791)
Forfeited	(253,375)	(118,155)
Outstanding share units, end of year	6,178,298	5,218,941

Employee Share Purchase Plan

Eligible employees can participate in the employee share purchase plan under which employees can invest between 2% and 10% of their base salary for the purchase of shares on the secondary market. Air Canada will match 33.33% of the contributions made by employees. During 2025, Air Canada recorded compensation expense of \$30 million (2024 – \$25 million) related to the Employee Share Purchase Plan.

14. Earnings per share

The following table outlines the calculation of basic and diluted earnings per share:

(in millions, except per share amounts)	2025	2024
Numerator:		
Net income	\$ 644	\$ 1,720
Effect of assumed conversion of convertible notes	(47)	56
Adjusted numerator for diluted earnings per share	\$ 597	\$ 1,776
Denominator:		
Weighted-average shares	311	358
Effect of potential dilutive securities:		
Stock options	-	-
Convertible notes	9	18
Adjusted denominator for diluted earnings per share	320	376
Basic earnings per share	\$ 2.07	\$ 4.81
Diluted earnings per share	\$ 1.86	\$ 4.72

The calculation of earnings per share is based on whole dollars and not on rounded millions. As a result, the above amounts may not be recalculated to the per share amount disclosed above.

As described in Note 8, the convertible notes were settled with cash following their maturity on July 1, 2025. The conversion rate of the convertible notes was 65.1337 shares per US\$1,000 principal amount of convertible notes and is no longer a consideration in computing the dilutive earnings per share, except as part of the year-to-date calculation for the period to July 1, 2025.

Excluded from the 2025 calculation of diluted earnings per share were 7,270,000 (2024 – 6,811,000) outstanding options where the options’ exercise prices were greater than the average market price of the shares for the year. Outstanding options that had exercise prices lower than the average market price of the shares for the year were included in the calculation of diluted earnings per share; using the treasury stock method, this resulted in less than one million in potential dilutive securities.



15. Commitments

Capital Commitments and Leases

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation. U.S. dollar amounts are converted using the December 31, 2025 closing rate of CDN\$1.37. Minimum future commitments under these contractual arrangements are shown below.

Air Canada is acquiring eight Airbus A350 aircraft. The purchase agreement also contains purchase rights for 8 additional Airbus A350 aircraft. Deliveries are scheduled to begin in the second half of 2030. Capital commitments also include the acquisition of 14 Boeing 787-10 aircraft of which 10 are scheduled to be delivered by 2028 and the remainder of 4 by 2030. Deliveries are scheduled to begin in 2026. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft. Capital commitments also include the purchase and deliveries for 24 Airbus A220 aircraft planned to continue into 2026 and 2027.

Also included below are capital commitments relating to the acquisition of 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in the first quarter of 2026 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S that includes purchase rights to acquire up to 10 additional aircraft between 2030 and 2032. The amounts related to the periodic lease payments on the 15 leases are included for the periods noted. Lease payments related to five Boeing 737 MAX 8 aircraft expected to be delivered in 2026 are also included.

(Canadian dollars in millions)

	2026	2027	2028	2029	2030	Thereafter	Total
Capital expenditures	\$ 2,549	\$ 2,491	\$ 1,569	\$ 1,358	\$ 1,278	\$ 3,399	\$ 12,644

In 2022, Air Canada announced it had entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. Due to the developing design and specifications of the aircraft, the final cost is not yet determinable and not included in the table above, however the agreement provides for a price cap. The regional aircraft would not be expected to enter service before 2029.

Air Canada leases and subleases certain aircraft and spare engines to its regional carrier, Jazz, which are charged back to Air Canada through its capacity purchase agreement with Jazz. These are reported net on the consolidated statement of operations. The leases and subleases relate to 15 Mitsubishi CRJ-200 aircraft, 20 Mitsubishi CRJ-900 aircraft, 25 Embraer 175 aircraft, and 13 spare engines. The lease and sublease revenue and expense related to these aircraft and engines amount to \$114 million in 2025 (2024 – \$116 million).

Related financing arrangements

In October 2024, Air Canada received a loan commitment from Export Development Canada of up to US\$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft expected to be delivered no later than October 2027. As described in Note 8, in September 2025, Air Canada drew down \$231 million under this facility for 5 A220 aircraft which had been previously delivered.

Other Contractual Commitments

The future minimum non-cancellable commitment for the next 12 months under commercial agreements with regional carriers is approximately \$1,275 million which includes pass-through costs to sustain the minimum flying commitment.



16. Financial instruments and risk management

Summary of Financial Instruments

	Carrying Amounts					December 31, 2024
	December 31, 2025					
	Financial instruments classification					
	Fair value through profit and loss	Fair value through OCI	Assets at amortized cost	Liabilities at amortized cost	Total	
<small>(Canadian dollars in millions)</small>						
Financial Assets						
Cash and cash equivalents	\$ 2,795	\$ -	\$ -	\$ -	\$ 2,795	\$ 2,518
Short-term investments	2,730	-	-	-	2,730	4,464
Accounts receivable	-	-	1,292	-	1,292	1,089
Investments, deposits and other assets						
Long-term investments	640	-	-	-	640	770
Equity investment in Chorus	-	48	-	-	48	49
Restricted cash	117	-	-	-	117	104
Aircraft related and other deposits	-	-	51	-	51	59
Other investments	-	27	-	-	27	38
Derivative instruments						
Foreign exchange derivatives	2	-	-	-	2	157
	\$ 6,284	\$ 75	\$ 1,343	\$ -	\$ 7,702	\$ 9,248
Financial Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 4,116	\$ 4,116	\$ 3,381
Foreign exchange derivatives	245	-	-	-	245	135
Fuel derivatives	4	-	-	-	4	-
Embedded derivative on convertible notes	-	-	-	-	-	45
Current portion of long-term debt and lease liabilities	-	-	-	2,967	2,967	1,755
Long-term debt and lease liabilities	-	-	-	8,609	8,609	10,915
	\$ 249	\$ -	\$ -	\$ 15,692	\$ 15,941	\$ 16,231

Summary of Gain on Financial Instruments Recorded at Fair Value

		2025	2024
<small>(Canadian dollars in millions)</small>			
Embedded derivative on convertible notes	Note 8	\$ 45	\$ 11
Short-term and long-term investments		37	17
Gain on financial instruments recorded at fair value		\$ 82	\$ 28



Risk Management

Under its risk management policy, Air Canada manages its market risk through the use of various financial derivative instruments. Air Canada uses these instruments solely for risk management purposes, not for generating trading profit. As such, any change in cash flows associated with derivative instruments is designed to be an economic hedge and offset by changes in cash flows of the relevant risk being hedged.

The fair values of derivative instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair values of these derivatives are determined using prices in active markets, where available. When no such market is available, valuation techniques such as discounted cash flow analysis are applied. The valuation technique incorporates all factors that would be considered in setting a price, including Air Canada's own credit risk as well as the credit risk of the counterparty.

Liquidity risk

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

At December 31, 2025, total liquidity was \$7,500 million comprised of cash and cash equivalents, short-term and long-term investments of \$6,165 million, and \$1,335 million available under undrawn credit facilities. Cash and cash equivalents include \$333 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators (\$346 million at December 31, 2024).

Cash and cash equivalents include \$177 million pertaining to investments with original maturities of three months or less at December 31, 2025 (\$115 million as at December 31, 2024).

A maturity analysis of Air Canada's principal and interest repayment requirements on long-term debt and lease liabilities is set out in Note 8, and fixed operating commitments and capital commitments are set out in Note 15.

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk can be further divided into the following sub-classifications related to Air Canada: fuel price risk, foreign exchange risk, interest rate risk, and share-based compensation risk.

Fuel Price Risk

Fuel price risk is the risk that future cash flows will fluctuate because of changes in jet fuel prices. To manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada can elect to enter into derivative contracts with financial intermediaries. Air Canada may use derivative contracts based on jet fuel, heating oil and crude-oil based contracts. Air Canada's policy permits hedging of up to 75% of the projected jet fuel purchases for the current calendar year, 50% of the projected jet fuel purchases for the next calendar year, and 25% of projected jet fuel purchases for any calendar year thereafter. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. There are regular reviews to adjust the strategy in light of market conditions.

During 2025, Air Canada entered into jet fuel swap derivative contracts covering a portion of 2025 fuel exposure. These derivative contracts cash settled with a fair value of \$65 million in favor of Air Canada, with a hedging gain of \$65 million recorded in Aircraft fuel expense (hedging loss of \$54 million for the year ended December 31, 2024). No hedge ineffectiveness was recorded. As at December 31, 2025, jet fuel swap derivatives with a fair value of \$4 million in favour of the counterparties were outstanding, covering a portion of 2026 fuel exposure. There were no outstanding fuel derivatives as at December 31, 2024.

Foreign Exchange Risk

Air Canada's financial results are reported in Canadian dollars, while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. Air Canada's risk management objective is to reduce cash flow risk related to foreign denominated cash flows.

Air Canada has a target foreign currency derivative coverage of 70% on a rolling 18 month basis to manage its net U.S. dollar cash flow exposure described above utilizing the following risk management strategies:

- Holding U.S. dollar cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash, short and long-term investment balances as at December 31, 2025 amounted to \$920 million (US\$672 million) (\$805 million (US\$561 million) as at December 31, 2024) which are applied against the rolling 18 month net U.S. dollar cash flow exposure. In 2025, a loss of \$34 million (gain of \$64 million in 2024) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short and long-term investment balances held.
- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments. Based on the notional amount of currency derivatives outstanding at December 31, 2025, as further described below, approximately 74% of net U.S. cash outflows are hedged for 2026 and 37% for 2027, resulting in derivative coverage of 63% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 70% coverage over the next 18 months.



As at December 31, 2025, Air Canada had outstanding foreign currency options and swap agreements, settling in 2026 and 2027, to purchase at maturity \$8,913 million (US\$6,495 million) of U.S. dollars at a weighted average rate of \$1.3648 per US\$1.00 (2024 – \$9,812 million (US\$6,847 million) with settlements in 2025 and 2026 at a weighted average rate of \$1.3457 per US\$1.00).

Air Canada also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €487 million, GBP £240 million, JPY ¥10,185 million, and AUD \$22 million) which settle in 2026 and 2027 at weighted average rates of €1.1127, £1.3367, ¥0.0069, and AUD \$0.6749 per US\$1.00, respectively (as at December 31, 2024 – EUR €341 million, GBP £172 million, JPY ¥38,610 million, CNH ¥711 million and AUD \$242 million) with settlement in 2025 and 2026 at weighted average rates of €1.1267, £1.2897, ¥0.0071, CNH ¥0.1435 and AUD \$0.6810 per US\$1.00.

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at December 31, 2025 was \$243 million in favour of the counterparties (2024 – \$22 million in favour of Air Canada). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During 2025, a loss of \$207 million was recorded in Foreign exchange gain (loss) related to these derivatives (2024 – \$450 million gain). In 2025, foreign exchange derivative contracts cash settled with a net fair value of \$66 million in favour of Air Canada (2024 – \$265 million in favour of Air Canada).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Air Canada enters into both fixed and floating rate debt and also leases certain assets where the rental amount fluctuates based on changes in short-term interest rates. Air Canada manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to Air Canada. The cash and short-term investment portfolio which earns a floating rate of return is an economic hedge for a portion of the floating rate debt.

The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in Air Canada's capital structure and is based upon a long-term objective of 60% fixed and 40% floating but allows flexibility to adjust to prevailing market conditions. The ratio at December 31, 2025 is 84% fixed and 16% floating (84% and 16%, respectively as at December 31, 2024).

Share-based Compensation Risk

Air Canada issues RSUs and PSUs to certain of its employees, as described in Note 13, which entitles the employees to receive a payment in the form of one share, cash in the amount equal to market value of one share, or a combination thereof, at the discretion of the Board of Directors.

There was no share forward contract activity in 2025 or contracts outstanding as at December 31, 2025 nor as at December 31, 2024.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2025, Air Canada's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, long-term investments and derivative instruments. Cash and cash equivalents and short and long-term investments are in place with major financial institutions, various levels of government in Canada, and major corporations. Accounts receivable are generally the result of sales of passenger tickets to individuals, largely through the use of major credit cards, through geographically dispersed travel agents, corporate outlets, or other airlines. Similarly, accounts receivable related to cargo revenues relate to accounts from a large number of geographically dispersed customers. Accounts receivable related to agreements for the issuance of Aeroplan Points are mainly with major financial institutions and any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. Expected credit loss is nominal in the current and prior year. Credit rating guidelines are used in determining derivative counterparties. In order to manage its exposure to credit risk and assess credit quality, Air Canada reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by Air Canada as at December 31, 2025. The sensitivity analysis is based on certain movements in the relevant risk factor. These assumptions may not be representative of actual movements in these risks and may not be relied upon. Given potential volatility in the financial and commodity markets, the actual movements and related percentage changes may differ significantly from those outlined below. Changes in income generally cannot be extrapolated because the relationship of the change in assumption to the change in income may not be linear. For purposes of presentation, each risk is contemplated independent of other risks; however, in reality, changes in any one factor may result in changes in one or more several other factors, which may magnify or counteract the sensitivities.

The sensitivity analysis related to foreign exchange derivative contracts is based on the estimated fair value change applicable to the derivative as at December 31, 2025 considering a 5% change in the U.S. dollar versus the Canadian dollar while holding all other assumptions constant.



	Interest rate risk		Foreign exchange rate risk ⁽¹⁾		Other price risk	
	Income		Income		Income	
	1% increase	1% decrease	5% increase	5% decrease	10% increase	10% decrease
(Canadian dollars in millions)						
Cash and cash equivalents	\$ 28	\$ (28)	\$ (4)	\$ 4	\$ -	\$ -
Short-term investments	\$ 27	\$ (27)	\$ (23)	\$ 23	\$ -	\$ -
Long-term investments	\$ 6	\$ (6)	\$ (3)	\$ 3	\$ -	\$ -
Aircraft related deposits	\$ -	\$ -	\$ (2)	\$ 2	\$ -	\$ -
Long-term debt and lease liabilities	\$ (20)	\$ 20	\$ 386	\$ (386)	\$ -	\$ -
Foreign exchange derivative	\$ -	\$ -	\$ (12)	\$ 12	\$ -	\$ -

(1) Increase (decrease) in foreign exchange relates to a strengthening (weakening) of the Canadian dollar versus the U.S. dollar. The impact on long-term debt and lease liabilities includes \$5 million related to the Canadian dollar versus the Japanese yen. The impact of changes in other currencies is not significant to Air Canada's financial instruments.

For Air Canada's equity investment in Chorus, a 10% increase (decrease) to the Chorus share price would increase (decrease) Other comprehensive income by \$5 million.

Covenants in Credit Card Agreements

Air Canada's principal credit card processing agreements for credit card processing services contain triggering events upon which Air Canada is required to provide the applicable credit card processor with cash deposits. The obligations to provide cash deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for Air Canada and the unrestricted cash and short-term investments of Air Canada. In 2025, Air Canada made no cash deposits under these agreements (nil in 2024).

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short-term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments. Cash equivalents and short and long-term investments are classified as held for trading and therefore are recorded at fair value.

The carrying amounts of derivatives are equal to fair value, which is based on the amount at which they could be settled based on estimated current market rates as at December 31, 2025.

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to Air Canada based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt is \$9,214 million compared to its carrying value of \$9,164 million.



Following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

	December 31, 2025	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring measurements				
<i>(Canadian dollars in millions)</i>				
Financial Assets				
Held-for-trading securities				
Cash equivalents	\$ 177	\$ -	\$ 177	\$ -
Short-term investments	2,730	-	2,730	-
Long-term investments	640	-	640	-
Equity investment in Chorus	48	48	-	-
Derivative instruments				
Foreign exchange derivatives	2	-	2	-
Total	\$ 3,597	\$ 48	\$ 3,549	\$ -
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	\$ 245	\$ -	\$ 245	\$ -
Fuel derivatives	4	-	4	-
Total	\$ 249	\$ -	\$ 249	\$ -

Financial assets held by financial institutions in the form of cash and restricted cash have been excluded from the fair value measurement classification table above as they are not valued using a valuation technique.

Air Canada's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers within the fair value hierarchy during 2025.



Offsetting of Financial Instruments in the Consolidated Statement of Financial Position

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where Air Canada has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, Air Canada enters into various master netting arrangements or other similar arrangements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be set-off in certain circumstances, such as the termination of the contracts or in the event of bankruptcy or default of either party to the agreement.

Air Canada participates in industry clearing house arrangements whereby certain accounts receivable balances related to passenger, cargo and other billings are settled on a net basis with the counterparty through the clearing house. These billings are mainly the result of interline agreements with other airlines, which are commercial agreements that enable the sale and settlement of travel and related services between the carriers. Billed and work in process interline receivables are presented on a gross basis and amount to \$85 million as at December 31, 2025 (\$107 million as at December 31, 2024). These balances will be settled at a net value at a later date; however, such net settlement amount is unknown until the settlement date.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset, as at December 31, 2025 and 2024, and shows in the Net column what the net impact would be on the consolidated statement of financial position if all set-off rights were exercised.

			Amounts offset	Amounts not offset	Net
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	
Financial assets (Canadian dollars in millions)					
December 31, 2025					
Derivative assets	\$ 8	\$ (6)	\$ 2	\$ -	\$ 2
	\$ 8	\$ (6)	\$ 2	\$ -	\$ 2
December 31, 2024					
Derivative assets	\$ 229	\$ (72)	\$ 157	\$ -	\$ 157
	\$ 229	\$ (72)	\$ 157	\$ -	\$ 157
			Amounts offset	Amounts not offset	Net
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	
Financial liabilities (Canadian dollars in millions)					
December 31, 2025					
Derivative liabilities	\$ 348	\$ (99)	\$ 249	\$ -	\$ 249
	\$ 348	\$ (99)	\$ 249	\$ -	\$ 249
December 31, 2024					
Derivative liabilities	\$ 239	\$ (104)	\$ 135	\$ -	\$ 135
	\$ 239	\$ (104)	\$ 135	\$ -	\$ 135



17. Contingencies, guarantees and indemnities

Contingencies and Litigation Provisions

Various lawsuits and claims are pending by and against Air Canada and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of Air Canada.

Guarantees

Air Canada participates in fuel facility arrangements operated through nine Fuel Facility Corporations, and three aircraft de-icing service facilities, along with other airlines that contract for fuel and de-icing services at various major airports in Canada. These entities operate on a cost recovery basis. The aggregate debt of these entities that has not been consolidated by Air Canada under IFRS 10 Consolidated Financial Statements is approximately \$1,631 million as at December 31, 2025 (December 31, 2024 – \$1,425 million), which is Air Canada's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur amongst the other contracting airlines. Air Canada views this loss potential as remote. Each contracting airline participating in these entities shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

Indemnification Agreements

In the ordinary course of Air Canada's business, Air Canada enters into a variety of agreements, such as real estate leases or operating agreements, aircraft financing or leasing agreements, technical service agreements, and director/officer contracts, and other commercial agreements, some of which may provide for indemnifications to counterparties that may require Air Canada to pay for costs and/or losses incurred by such counterparties. Air Canada cannot reasonably estimate the potential amount, if any, it could be required to pay under such indemnifications. Any such amount would also depend on the outcome of future events and conditions, which cannot be predicted. While certain agreements specify a maximum potential exposure, certain others do not specify a maximum amount or a limited period. Historically, Air Canada has not made any significant payments under these indemnifications.

Air Canada expects that it would be covered by insurance for most extra-contractual liabilities and certain contractual indemnities.

18. Capital disclosures

Air Canada views capital as the sum of Long-term debt and lease liabilities, the embedded derivative on convertible notes, and the book value of Shareholders' equity. Air Canada also monitors its net debt which is calculated as the sum of Long-term debt and lease liabilities less cash and cash equivalents, and short-term and long-term investments.

Air Canada's main objectives when managing capital are:

- To ensure Air Canada has access to capital to fund contractual obligations as they become due and to ensure adequate cash levels to withstand deteriorating economic conditions;
- To ensure capital allocation decisions generate sufficient returns and to assess the efficiency with which the Air Canada allocates its capital to generate returns;
- To structure repayment obligations in line with the expected life of Air Canada's principal revenue generating assets;
- To maintain an appropriate balance between debt supplied capital versus investor supplied capital; and
- To monitor Air Canada's credit ratings to facilitate access to capital markets at competitive interest rates.

In order to maintain or adjust the capital structure, Air Canada may adjust the type or amount of capital utilized, including purchase versus debt financing versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling aircraft options, redeeming or issuing debt securities, issuing equity securities, and repurchasing outstanding shares, all subject to market conditions and the terms of the underlying agreements (or any consents required) or other legal restrictions.

The total capital and net debt as at December 31 are calculated as follows:

	December 31, 2025	December 31, 2024
<small>(Canadian dollars in millions)</small>		
Long-term debt and lease liabilities	\$ 8,609	\$ 10,915
Current portion of long-term debt and lease liabilities	2,967	1,755
Total long-term debt and lease liabilities	11,576	12,670
Embedded derivative on convertible notes	-	45
Shareholders' equity	2,591	2,388
Total Capital	\$ 14,167	\$ 15,103
Total long-term debt and lease liabilities	\$ 11,576	\$ 12,670
Less Cash and cash equivalents, and short-term and long-term investments	(6,165)	(7,752)
Net debt	\$ 5,411	\$ 4,918



19. Revenue

Disaggregation of revenue

Air Canada disaggregates revenue from contracts with customers according to the nature of the air transportation services. The nature of services is presented as passenger, cargo and other revenue on its consolidated statement of operations. Air Canada further disaggregates passenger and cargo air transportation service revenue according to geographic market segments.

A reconciliation of the total amounts reported by geographic region for Passenger revenues and Cargo revenues on the consolidated statement of operations is as follows:

Passenger Revenues

(Canadian dollars in millions)

	2025	2024
Canada	\$ 5,273	\$ 5,255
U.S. Transborder	3,831	4,275
Atlantic	5,979	5,754
Pacific	2,703	2,792
Other	1,818	1,684
	\$ 19,604	\$ 19,760

Cargo Revenues

(Canadian dollars in millions)

	2025	2024
Canada	\$ 126	\$ 106
U.S. Transborder	53	58
Atlantic	366	375
Pacific	322	311
Other	166	141
	\$ 1,033	\$ 991

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia. Other passenger and cargo revenues refer to flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

Other operating revenues are principally derived from customers located in Canada and consist primarily of revenues from the sale of the ground portion of vacation packages, redemption of Aeroplan Points for non-air goods and services, buy on board and related passenger ancillary services and charges, and other airline-related services.

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(Canadian dollars in millions)	2025	2024
Receivables, which are included in Accounts receivable	942	770
Contract costs which are included in Prepaid expenses and other current assets	131	124
Contract liabilities – Advance ticket sales	4,814	4,387
Contract liabilities – Aeroplan deferred revenue (current and long-term)	4,008	3,785
Contract liabilities – Other deferred revenue (current and long-term)	611	755

Receivables include passenger, cargo and other receivables from contracts with customers. Air Canada sells passenger tickets and related ancillary services via cash, credit card or other card-based forms of payment with payment generally collected in advance of the performance of related transportation services. Passenger ticket and ancillary receivables are amounts due from other airlines for interline travel, travel agency payment processing intermediaries or credit card processors associated with sales for future travel and are included in Accounts receivable on the consolidated statement of financial position. Proceeds from Aeroplan Points issued pursuant to Aeroplan program partner arrangements are based on member accumulations and which billings are generally settled monthly. Cargo and other accounts receivable relate to amounts owing from customers, including from freight forwarders and interline partners for cargo and other services provided.

Contract costs include payment card fees, commissions and global distribution system charges on passenger tickets. These costs are capitalized at time of sale and expensed at the time of passenger revenue recognition.

Airline passenger and cargo sales transactions rely on multiple information technology systems and controls to process, record, and recognize a high volume of low value transactions, through a combination of internal information technology systems and outsourced service providers, including industry clearing houses, global distribution systems, and other partner airlines. Passenger sales and the ground portion of vacation packages are deferred and included in Current liabilities. A portion of the passenger sale related to the equivalent ticket value of any Aeroplan Points issued is separated and deferred in Aeroplan deferred revenue. The Advance ticket sales liability is recognized in revenue when the related flight occurs or over the period of the vacation. Depending on the fare class, passengers may exchange their tickets up to the time of the flight or obtain a refund, generally in exchange for the payment of a fee. Air Canada performs regular evaluations on the advance ticket sales liability.

The practical expedient in IFRS 15 allows entities not to disclose the amount of the remaining transaction prices and its expected timing of recognition for performance obligations if the contract has an original expected duration of one year or less. Air Canada elects to use this practical expedient for the passenger travel performance obligation as passenger tickets expire within a year if unused.



Air Canada offers and has issued and outstanding non-expiring travel credits. Customers have the ability to use the travel credits within the next 12 months and Air Canada does not have an unconditional right to defer settlement beyond the next 12 months. As such, the entire liability amount as at December 31, 2025 of \$251 million (2024 - \$263 million) related to these credits has been recorded in current liabilities even though some could be used after the next 12 months.

The following table presents financial information related to the changes in Aeroplan deferred revenue:

(Canadian dollars in millions)	2025	2024
Aeroplan deferred revenue, beginning of year	\$ 3,785	\$ 3,562
Proceeds from Aeroplan Points issued pursuant to program partner arrangements	1,980	1,845
Equivalent ticket value of Aeroplan Points issued	359	325
Aeroplan Points redeemed	(2,116)	(1,947)
Aeroplan deferred revenue, end of year	\$ 4,008	\$ 3,785

Proceeds from Points issued pursuant to Aeroplan program partner arrangements and the equivalent ticket value of Points issued through travel are deferred until the Points are redeemed and the reward is provided to the member. Air Canada expects the majority of the Points outstanding will be redeemed within three years.

20. Other operating expenses

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

(Canadian dollars in millions)	2025	2024
Terminal handling	\$ 578	\$ 546
Crew cycle	357	300
Building rent and maintenance	327	323
Miscellaneous fees and services	296	254
Remaining other expenses	1,043	1,035
Total other operating expenses	\$ 2,601	\$ 2,458

21. Related party transactions

Air Canada sponsors and provides management services to a number of post-retirement plans which are related parties. Refer to Note 9 for additional information on these plans, including contributions made by Air Canada to these plans.

Compensation of Key Management

Key management includes Air Canada's Board of Directors and its Executive Officers (President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Operations Officer, Executive Vice President and Chief Commercial Officer and President, Cargo, Executive Vice President and Chief Innovation Officer and President of Aeroplan, , Executive Vice President and Chief Human Resources Officer and Public Affairs, and Executive Vice President, Chief Legal Officer and Corporate Secretary). Amounts reported are based upon the expense as reported in the consolidated financial statements, which in the case of Pension and post-employment benefits, includes actuarial gains or losses, as applicable. Share-based compensation is further described in Note 13 and is impacted by Air Canada's share price. Compensation to key management is summarized as follows:

(Canadian dollars in millions)	2025	2024
Salaries and other benefits	\$ 12	\$ 11
Pension and post-employment benefits	1	3
Share-based compensation	17	27
	\$ 30	\$ 41

Air Canada believes that being accountable for the impact of our operations on the environment is one part of building sustainable, healthier communities. Since 2019, we have used notice-and-access to deliver our management proxy circulars to our shareholders, leading to significant cost savings and less impact on the environment.

