Second Quarter 2026

INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes

August 11, 2026

AIR CANADA
A STAR ALLIANCE MEMBER

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)		**June 30, 2026**	**December 31, 2025**
ASSETS			
Current			
Cash and cash equivalents		$ 4,517	$ 2,795
Short-term investments		2,494	2,730
Total cash, cash equivalents and short-term investments		7,011	5,525
Accounts receivable		1,416	1,292
Aircraft fuel inventory		299	214
Spare parts and supplies inventory		294	276
Prepaid expenses and other current assets		578	609
Total current assets		9,598	7,916
Investments, deposits and other assets		870	959
Property and equipment	Note 12	15,272	14,515
Pension assets		2,711	2,513
Deferred income tax		740	774
Intangible assets		1,261	1,265
Goodwill		3,273	3,273
Total assets		**$ 33,725**	**$ 31,215**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 4,719	$ 4,513
Advance ticket sales		6,069	4,814
Aeroplan and other deferred revenue		1,798	1,840
Current portion of long-term debt and lease liabilities	Note 4	3,377	2,967
Total current liabilities		15,963	14,134
Long-term debt and lease liabilities	Note 4	9,417	8,609
Aeroplan and other deferred revenue		2,801	2,779
Pension and other benefit liabilities		1,481	1,534
Maintenance provisions		1,143	1,341
Other long-term liabilities		171	154
Deferred income tax		73	73
Total liabilities		**$ 31,049**	**$ 28,624**
SHAREHOLDERS' EQUITY			
Share capital		2,164	2,275
Contributed surplus		173	166
Hedging reserve		(34)	(3)
Accumulated other comprehensive loss		(43)	(49)
Retained earnings		416	202
Total shareholders' equity		2,676	2,591
Total liabilities and shareholders' equity		**$ 33,725**	**$ 31,215**

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

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited (Canadian dollars in millions except per share figures)		Three months ended June 30 2026	Three months ended June 30 2025	Six months ended June 30 2026	Six months ended June 30 2025
Operating revenues					
Passenger	Note 10	$ 5,576	$ 5,031	$ 10,368	$ 9,362
Cargo	Note 10	325	253	584	503
Other		365	348	1,099	963
Total revenues		**6,266**	**5,632**	**12,051**	**10,828**
Operating expenses					
Aircraft fuel		1,713	1,148	2,907	2,334
Wages, salaries and benefits	Note 3	1,740	1,247	2,993	2,386
Depreciation, amortization and impairment		546	491	1,052	986
Airport and navigation fees		446	407	836	764
Aircraft maintenance		364	341	721	674
Sales and distribution costs		293	275	586	540
Capacity purchase fees		232	219	465	439
Ground package costs		164	157	596	530
Information technology		143	151	330	343
Catering and onboard services		180	173	353	310
Other	Note 11	660	605	1,310	1,212
Total operating expenses		**6,481**	**5,214**	**12,149**	**10,518**
Operating income (loss)		**(215)**	**418**	**(98)**	**310**
Non-operating income (expense)					
Foreign exchange gain (loss)		(4)	(190)	99	(201)
Interest income		58	59	114	134
Interest expense	Note 4	(158)	(168)	(317)	(346)
Interest capitalized		23	13	33	26
Financial instruments recorded at fair value	Note 9	(6)	6	(3)	60
Loss on debt settlements	Note 4	-	-	(56)	-
Gain on sale and leaseback of assets	Note 12	36	-	82	-
Other	Note 11	(50)	(35)	(47)	(47)
Total non-operating expense		**(101)**	**(315)**	**(95)**	**(374)**
Income (loss) before income taxes		**(316)**	**103**	**(193)**	**(64)**
Income tax recovery	Note 5	138	83	63	148
Net income (loss) for the period		**$ (178)**	**$ 186**	**$ (130)**	**$ 84**
Net income per share	Note 7				
Basic earnings (loss) per share		$ (0.63)	$ 0.58	$ (0.45)	$ 0.26
Diluted earnings (loss) per share		$ (0.63)	$ 0.51	$ (0.45)	$ 0.10

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (Canadian dollars in millions)		**Three months ended June 30 2026**	**Three months ended June 30 2025**	**Six months ended June 30 2026**	**Six months ended June 30 2025**
Comprehensive income (loss)					
Net income (loss) for the period		$ (178)	$ 186	$ (130)	$ 84
Other comprehensive income (loss), net of tax:	Note 5				
Items that will not be reclassified to net income					
Remeasurements on net employee benefits	Note 3	466	94	504	120
Remeasurements on equity investments		4	7	6	1
Items that will be reclassified to net income					
Fuel derivatives designated as cash flow hedges	Note 9	(211)	16	(31)	16
Total comprehensive income		**$ 81**	**$ 303**	**$ 349**	**$ 221**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (Canadian dollars in millions)	**Share capital**	**Contributed surplus**	**Hedging reserve**	**Accumulated Other comprehensive loss**	**Retained earnings (deficit)**	**Total shareholders' equity**
January 1, 2025	$ 2,612	$ 149	–	$ (48)	$ (325)	$ 2,388
Net income	–	–	–	–	84	84
Remeasurements on net employee benefits	–	–	–	–	120	120
Remeasurements on equity investments	–	–	–	1	–	1
Fuel derivatives designated as cash flow hedges	–	–	16	–	–	16
Total comprehensive income	–	–	16	1	204	221
Share-based compensation	–	11	–	–	–	11
Shares purchased and cancelled under issuer bid (Note 6)	(327)	–	–	–	(506)	(833)
June 30, 2025	$ 2,285	$ 160	16	$ (47)	$ (627)	$ 1,787
January 1, 2026	$ 2,275	$ 166	(3)	$ (49)	$ 202	$ 2,591
Net income (loss)	–	–	–	–	(130)	(130)
Remeasurements on net employee benefits	–	–	–	–	504	504
Remeasurements on equity investments	–	–	–	6	–	6
Fuel derivatives designated as cash flow hedges	–	–	(31)	–	–	(31)
Total comprehensive income	–	–	(31)	6	374	349
Share-based compensation	1	7	–	–	–	8
Shares purchased and cancelled under issuer bid (Note 6)	(112)	–	–	–	(160)	(272)
June 30, 2026	$ 2,164	$ 173	(34)	$ (43)	$ 416	$ 2,676

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

CONSOLIDATED STATEMENTS OF CASH FLOW

Unaudited (Canadian dollars in millions)		**Three months ended June 30 2026**	**Three months ended June 30 2025**	**Six months ended June 30 2026**	**Six months ended June 30 2025**
Cash flows from (used in)					
Operating					
Net income for the period		$ (178)	$ 186	$ (130)	$ 84
Adjustments to reconcile to net cash from operations					
Deferred income tax	Note 5	(170)	(69)	(135)	(147)
Depreciation, amortization and impairment		546	491	1,052	986
Foreign exchange loss (gain)		5	170	(128)	216
Employee benefit funding less than expense		384	35	402	62
Financial instruments recorded at fair value	Note 9	6	(6)	3	(60)
Loss on debt settlements	Note 4	-	-	56	-
Change in maintenance provisions		40	41	83	103
Gain on sale and leaseback of assets	Note 12	(36)	-	(82)	-
Changes in non-cash working capital balances		28	14	1,315	1,181
Other		26	33	13	(4)
Net cash flows from operating activities		**651**	**895**	**2,449**	**2,421**
Financing					
Proceeds from borrowings	Note 4	291	-	569	-
Reduction of long-term debt and lease liabilities	Note 4	(297)	(647)	(801)	(881)
Shares purchased for cancellation	Note 6	(130)	(500)	(267)	(827)
Issue of shares		-	-	1	-
Financing fees	Note 4	-	-	(4)	-
Net cash flows used in financing activities		**(136)**	**(1,147)**	**(502)**	**(1,708)**
Investing					
Short-term investments, net		160	564	270	1,095
Disposals of long-term investments		225	414	473	731
Purchases of long-term investments		-	(26)	(354)	(336)
Additions to property, equipment and intangible assets		(695)	(712)	(1,172)	(1,407)
Proceeds from sale and leaseback of assets	Note 12	218	-	501	-
Other		1	1	7	21
Net cash flows from (used in) investing activities		**(91)**	**241**	**(275)**	**104**
Effect of exchange rate changes on cash and cash equivalents		**39**	**(14)**	**50**	**1**
Increase (decrease) in cash and cash equivalents		**463**	**(25)**	**1,722**	**818**
Cash and cash equivalents, beginning of period		4,054	3,361	2,795	2,518
Cash and cash equivalents, end of period		**$ 4,517**	**$ 3,336**	**$ 4,517**	**$ 3,336**

Cash payments of interest	Note 4	**$ 99**	**$ 104**	**$ 275**	**$ 304**
Cash payments of income taxes		**$ 15**	**$ 13**	**$ 44**	**$ 59**

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

Notes to the interim condensed consolidated financial statements (unaudited)
(Canadian dollars except where otherwise indicated)

1. GENERAL INFORMATION

The accompanying unaudited interim condensed consolidated financial statements (the “financial statements”) are of Air Canada. Air Canada refers to, 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. Refer to Note 13 Subsequent event for information on a minority equity investment in Aeroplan.

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

Air Canada has historically experienced greater demand for its services in the second and third quarters of the calendar year, primarily due to the high number of leisure travellers and their preference for travel during the spring and summer months. The financial results for the six months ended June 30, 2026 are not necessarily indicative of financial results for the entire year.

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 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 “Interim Financial Reporting”. In accordance with GAAP, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with Air Canada’s annual consolidated financial statements for the year ended December 31, 2025. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These financial statements were approved for issue by the Board of Directors of Air Canada on August 11, 2026.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2025 annual consolidated financial statements.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the International Accounting Standards Board (“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, including those through 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. An entity may elect an accounting policy option to derecognize a financial liability settled through an electronic payment system prior to the settlement date when those specific criteria are met. This election does not apply to payments made by cheque, which continue to be derecognized only upon settlement. The amendments became effective for annual reporting periods beginning on or after January 1, 2026.

Air Canada adopted this amendment with no material impact to Air Canada’s consolidated statement of financial position as of the January 1, 2026 adoption date. Air Canada elected the accounting policy option to derecognize financial liabilities settled through electronic payment systems prior to the settlement date when the specific criteria described above are met. The amendments were applied prospectively, and comparative information was not restated.

Accounting standards issued but not yet effective

The following accounting standard issued by the IASB has 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 as it executes its implementation plan for IFRS 18. During the period, management advanced the development of processes and systems required to support the new presentation requirements, including a derivative tracking model designed to identify and classify foreign exchange and derivative gains and losses within the appropriate income statement categories. Management has also completed a preliminary restatement of the comparative information of the first quarter of 2026 using the IFRS 18 presentation format for internal review purposes. Implementation activities remain ongoing, including validation and reconciliation procedures. Management does not currently expect any material issues in achieving compliance with the standard upon adoption.

3. WAGES, SALARIES AND BENEFITS

Labour related items

In the second quarter of 2026, Air Canada concluded a four-year collective agreement with Unifor. Air Canada recorded a pension past service cost of $132 million in the second quarter of 2026 to reflect changes included in the new collective agreement with Unifor. Some of these changes are conditional on future pension solvency financial positions. 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 domestic registered pension plan and are not expected to impact Air Canada's liquidity position.

Also in the second quarter of 2026, Air Canada recorded a $20 million charge in relation to benefits-related past service cost relating to a change in legislation.

Pension plan assets

As described in Note 9 to the 2025 annual consolidated financial statements, 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, are included in plan assets for determining the net benefit obligation for accounting purposes. 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.

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. In April 2026, the conditions to the completion of the agreement in principle were met, including the conclusion of definitive documentation and the receipt of all required approvals. Therefore, the trust will gradually commence selling shares up to the end of 2037, and the net proceeds from these sales will be used to make lump sum payments to eligible pensioners and to fund voluntary separation programs for senior unionized employees and non-executive employees based in Canada.

In the second quarter of 2026, Air Canada recorded a past service charge of $167 million related to the lump sum payments that will be made to pensioners at scheduled intervals, with any final distribution to occur no later than 2037. In addition, a voluntary separation program for unionized employees was announced in June 2026 with a charge of $41 million recorded in the second quarter of 2026. These charges were offset by a corresponding gain in other comprehensive income.

Proceeds from the sale of shares will fund the voluntary separation program and an initial payment of $100 million to pensioners during 2026.

4. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	June 30, 2026 (Canadian dollars in millions)	December 31, 2025 (Canadian dollars in millions)
Aircraft financing				
Fixed rate U.S. dollar financing	2026 – 2030	4.53	$ 1,758	$ 2,138
Floating rate U.S. dollar financing	2027	6.22	168	192
Fixed rate CDN dollar financing	2030	3.67	100	131
Floating rate CDN dollar financing (a)	2036 – 2038	4.01	510	227
Fixed rate Japanese yen financing	2027	1.84	103	103
Credit facility – CDN dollar	2028	1.21	1,193	1,172
Senior secured notes – CDN dollar	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar	2026	3.88	1,703	1,647
Senior secured credit facility – U.S. dollar (b)	2031	5.42	1,913	1,554
Long-term debt		**4.16**	**9,448**	**9,164**
Lease liabilities				
Air Canada aircraft	2026 – 2037	5.79	2,231	1,591
Regional aircraft	2027 – 2035	5.37	710	446
Land and buildings	2026 – 2078	5.14	434	435
Lease liabilities		**5.62**	**3,375**	**2,472**
Total debt and lease liabilities excluding unamortized debt issuance costs and discounts		**4.54**	**12,823**	**11,636**
Unamortized debt issuance costs and discounts			(29)	(60)
Total debt and lease liabilities			**12,794**	**11,576**
Current portion – Long-term debt			(2,765)	(2,429)
Current portion – Air Canada aircraft			(503)	(454)
Current portion – Regional aircraft			(76)	(53)
Current portion – Land and buildings			(33)	(31)
Total current portion			(3,377)	(2,967)
Long-term debt and lease liabilities			**$ 9,417**	**$ 8,609**

The above table provides terms of instruments disclosed in Note 8 to the 2025 annual consolidated financial statements of Air Canada.

Air Canada's US$975 million revolving credit facility maturing in 2029 is undrawn as of June 30, 2026.

(a) In October 2024, Air Canada entered into a facility agreement with Export Development Canada for loans up to US$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft. In June 2026, Air Canada drew down $291 million under this facility for six A220 aircraft which had been previously delivered. Loans for each aircraft have a final maturity date of twelve years after delivery. Interest rates are floating and are based on Term CORRA (Canadian Overnight Repo Rate Average) plus a margin of 1.72%. Financing for up to 16 A220 aircraft and US$596 million remain available under this facility.

(b) In January 2026, Air Canada completed a repricing of its US term loan B, reducing the interest rate by 25 basis points, to an interest rate of 1.75% over SOFR (Secured Overnight Financing Rate), and increased the loan by US$200 million to US$1.354 billion. Air Canada recorded a loss of $56 million on debt settlement for the write-off of unamortized deferred items related to this transaction.

Air Canada has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2026	**2025**	**2026**	**2025**
Interest on debt	$ 113	$ 133	$ 231	$ 275
Interest on lease liabilities				
Air Canada aircraft	29	15	55	45
Regional aircraft	10	10	20	15
Land and buildings	6	10	11	11
Interest expense	**$ 158**	**$ 168**	**$ 317**	**$ 346**

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)	Three months ended June 30		Six months ended June 30	
	2026	**2025**	**2026**	**2025**
Short-term leases	$ 3	$ 3	$ 6	$ 6
Variable lease payments not included in lease liabilities	17	17	34	35
Expense related to leases (included in Other operating expenses)	**$ 20**	**$ 20**	**$ 40**	**$ 41**

Total cash outflows for payments on lease liabilities was $175 million for the three months ended June 30, 2026 ($367 million for the six months ended June 30, 2026; $200 million and $385 million respectively for the three- and six-month periods ended June 30, 2025), of which $130 million was for principal repayments ($281 million for the six months ended June 30, 2026; $165 million and $314 million for the three- and six-month periods ended June 30, 2025).

Maturity analysis

Principal and interest repayment requirements as at June 30, 2026 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the June 30, 2026 closing rate of CDN$1.42.

Principal (Canadian dollars in millions)	Remainder of 2026	2027	2028	2029	2030	Thereafter	Total
Long-term debt obligations(1)	$ 1,989	1,124	1,417	2,348	490	2,160	**9,528**
Air Canada aircraft	305	386	332	247	232	729	**2,231**
Regional aircraft	41	67	68	70	71	393	**710**
Land and buildings	16	33	32	25	22	306	**434**
Lease liabilities	$ 362	486	432	342	325	1,428	**3,375**
Total long-term debt and lease liabilities	**$ 2,351**	**1,610**	**1,849**	**2,690**	**815**	**3,588**	**12,903**

Interest (Canadian dollars in millions)	Remainder of 2026	2027	2028	2029	2030	Thereafter	Total
Long-term debt obligations(1)	$ 195	311	251	233	123	89	**1,202**
Air Canada aircraft	62	103	83	64	49	127	**488**
Regional aircraft	18	33	30	26	22	53	**182**
Land and buildings	11	20	18	17	16	186	**268**
Lease liabilities	$ 91	156	131	107	87	366	**938**
Total long-term debt and lease liabilities	**$ 286**	**467**	**382**	**340**	**210**	**455**	**2,140**

(1) The full principal balance of $1,273 million for the unsecured credit facility due in 2028 is included.

Principal repayments in the table above exclude discounts and transaction costs of $29 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			
(Canadian dollars in millions)	Mar 31, 2026	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	June 30, 2026
Long-term debt	$ 9,204	$ 291	$ (167)	$ -	$ 109	$ 11	$ -	$ 9,448
Air Canada aircraft	1,973	-	(102)	-	46	-	314	2,231
Regional aircraft	719	-	(20)	-	14	-	(3)	710
Land and buildings	438	-	(8)	-	1	-	3	434
Lease liabilities	3,130	-	(130)	-	61	-	314	3,375
Unamortized debt issuance costs	(33)	-	-	-	-	4	-	(29)
Total liabilities from financing activities	**$ 12,301**	**$ 291**	**$ (297)**	**$ -**	**$ 170**	**$ 15**	**$ 314**	**$ 12,794**

		Cash Flows			Non-Cash Changes			
(Canadian dollars in millions)	Jan. 1, 2026	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	June 30, 2026
Long-term debt	$ 9,164	$ 569	$ (522)	$ -	$ 186	$ 51	$ -	$ 9,448
Air Canada aircraft	1,591	-	(221)	-	72	-	789	2,231
Regional aircraft	446	-	(42)	-	24	-	282	710
Land and buildings	435	-	(16)	-	1	-	14	434
Lease liabilities	2,472	-	(279)	-	97	-	1,085	3,375
Unamortized debt issuance costs	(60)	-	-	(4)	-	35	-	(29)
Total liabilities from financing activities	**$ 11,576**	**$ 569**	**$ (801)**	**$ (4)**	**$ 283**	**$ 86**	**$ 1,085**	**$ 12,794**

5. INCOME TAXES

Income tax recovery (expense)

Income tax recorded in the consolidated statement of operations is presented below.

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions)	**2026**	**2025**	**2026**	**2025**
Current income tax recovery (expense)	$ (32)	$ 14	$ (72)	$ 1
Deferred income tax recovery	170	69	135	147
Income tax recovery	**$ 138**	**$ 83**	**$ 63**	**$ 148**

Income tax recovery (expense) is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full year.

Air Canada's statutory tax rate for the six months ended June 30, 2026 was 26.53% (26.49% for the six months ended June 30, 2025).

Income tax recorded in the consolidated statement of comprehensive income (loss) is presented below.

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions)	**2026**	**2025**	**2026**	**2025**
Remeasurements on net employee benefits - current income tax (expense)	$ (1)	$ (2)	$ (2)	$ (2)
- deferred income tax (expense)	(167)	(32)	(180)	(42)
Fuel derivatives designated as cash flow hedges				
- deferred income tax recovery (expense)	76	(6)	11	(6)
Income tax (expense)	**$ (92)**	**$ (40)**	**$ (171)**	**$ (50)**

6. SHARE CAPITAL

Normal course issuer bids

In November 2025, 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 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 second quarter of 2026, Air Canada purchased for cancellation, 6,723,259 shares at an average cost of $18.61 per share for aggregate consideration of $125 million (14,516,991 shares at an average cost of $18.39 per share for aggregate consideration of $267 million for the six-month period ended June 30, 2026). The excess of the cost over the book value of $73 million was charged to Retained earnings, together with $2 million in share buyback tax ($155 million charged to Retained earnings, with $5 million in share buyback tax for the six-month period ended June 30, 2026). Including purchases made in the fourth quarter of 2025, Air Canada has purchased for cancellation an aggregate of 16,295,815 shares under its current 2025 – 2026 normal course issuer bid.

In the first quarter of 2025, Air Canada purchased for cancellation 15,504,742 shares for aggregate consideration of $315 million under its previous normal course issuer bid which had been approved in November 2024, effectively purchasing the maximum amount of 35,783,842 shares available for purchase for cancellation under the 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.

Substantial issuer bid

In May 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.

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 Deficit, together with $10 million in share buyback tax.

7. EARNINGS (LOSS) PER SHARE

The following table outlines the calculation of basic and diluted earnings per share.

	Three months ended June 30		Six months ended June 30	
(in millions, except per share amounts)	**2026**	**2025**	**2026**	**2025**
Numerator:				
Net income (loss) for the period:	**$ (178)**	**$ 186**	**$ (130)**	**$ 84**
Effect of assumed conversion of convertible notes	-	(13)	-	(49)
Remove anti-dilutive impact	-	-	-	-
Adjusted numerator for diluted earnings (loss) per share	**(178)**	**173**	**(130)**	**35**
Denominator:				
Weighted-average shares	**283**	**323**	**288**	**326**
Effect of potential dilutive securities:				
Stock options	1	-	1	-
Convertible notes	-	18	-	18
Remove anti-dilutive impact	(1)	-	(1)	-
Adjusted denominator for diluted earnings per share	**283**	**341**	**288**	**344**
Basic earnings (loss) per share	**$ (0.63)**	**$ 0.58**	**$ (0.45)**	**$ 0.26**
Diluted earnings (loss) per share	**$ (0.63)**	**$ 0.51**	**$ (0.45)**	**$ 0.10**

The calculation of earnings per share is based on whole numbers 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 to the 2025 annual consolidated financial statements of Air Canada, 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.

8. CAPITAL COMMITMENTS

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 June 30, 2026 closing rate of CDN$1.42. Minimum future commitments under these contractual arrangements are shown below.

(Canadian dollars in millions)	**Remainder of 2026**	**2027**	**2028**	**2029**	**2030**	**Thereafter**	**Total**
Capital commitments	$ 1,852	3,022	1,730	1,511	1,331	3,247	**12,693**

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 16 to the 2025 annual consolidated financial statements for information on Air Canada's risk management strategy.

Summary of gain (loss) on financial instruments recorded at fair value

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2026	**2025**	**2026**	**2025**
Embedded derivative on convertible notes	$ -	$ -	$ -	$ 45
Short-term and long-term investments	(6)	6	(3)	15
Gain (loss) on financial instruments recorded at fair value	**$ (6)**	**$ 6**	**$ (3)**	**$ 60**

Foreign exchange risk management

In the first quarter of 2026, Air Canada reduced its target foreign currency derivative coverage from 70% to 60% on a rolling 18-month basis to manage its net U.S. dollar cash flow exposure. As at June 30, 2026, Air Canada had outstanding foreign currency options and swap agreements, settling in 2026 and 2027, to purchase at maturity $10,589 million (US$7,452 million) of U.S. dollars at a weighted average rate of CDN$1.3763 per $1.00 U.S. dollar (as at December 31, 2025 – $8,913 million (US$6,495 million) with settlements in 2026 and 2027 at a weighted average rate of CDN$1.3648 per $1.00 U.S. dollar).

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 June 30, 2026 was $158 million in favour of Air Canada (as at December 31, 2025 – $243 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During the second quarter of 2026, foreign exchange gain (loss) related to these derivatives was $147 million gain ($379 million gain for the six-month period ended June 30, 2026; $726 million loss and $721 million loss respectively for the three- and six-month periods ended June 30, 2025). In the second quarter of 2026, foreign exchange derivative contracts cash settled with a net fair value of nil ($22 million in favour of the counterparties for the six-month period ended June 30, 2026; $1 million in favour of Air Canada and $59 million in favour of Air Canada respectively for the three- and six-month periods ended June 30, 2025).

Fuel price risk management

During the second quarter of 2026, jet fuel swap derivative contracts cash settled with a fair value of $205 million in favour of Air Canada, with a hedging gain of $205 million recorded in Aircraft fuel expense ($243 million gain for the six-month period ended June 30, 2026; $19 million gain for the three- and six-month periods ended June 30, 2025). No hedge ineffectiveness was recorded.

As at June 30, 2026, jet fuel swap derivatives with a fair value of $48 million in favour of the counterparties were outstanding, covering approximately 17% of the anticipated purchases of jet fuel for the third quarter of 2026 at an average jet fuel price of US$0.8767 per litre.

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. Cash and cash equivalents include $188 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators ($333 million at December 31, 2025).

The carrying amounts of derivatives are equal to their fair value, which is based on the amount at which they could be settled based on estimated market rates as at June 30, 2026.

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 $9,358 million compared to its carrying value of $9,448 million.

The 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. There are no changes in classifications or methods of measuring fair value from those disclosed in Note 16 to the 2025 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the six months ended June 30, 2026.

(Canadian dollars in millions)	June 30, 2026	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)
Financial Assets				
Held–for–trading securities				
Cash equivalents	$ 496	$ -	$ 496	$ -
Short–term investments	2,494	-	2,494	-
Long–term investments	513	-	513	-
Equity investment in Chorus	54	54	-	-
Derivative instruments				
Foreign exchange derivatives	170	-	170	-
Total	**$ 3,727**	**$ 54**	**$ 3,673**	**$ -**
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	12	-	12	-
Fuel derivatives	48	-	48	-
Total	**$ 60**	**$ -**	**$ 60**	**$ -**

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.

10. GEOGRAPHIC INFORMATION

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)	**Three months ended June 30**		**Six months ended June 30**	
	2026	**2025**	**2026**	**2025**
Canada	$ 1,505	$ 1,379	$ 2,723	$ 2,501
U.S. Transborder	1,075	961	2,045	1,952
Atlantic	1,821	1,644	2,895	2,583
Pacific	783	702	1,497	1,333
Other	392	345	1,208	993
	$ 5,576	**$ 5,031**	**$ 10,368**	**$ 9,362**

Cargo Revenues (Canadian dollars in millions)	**Three months ended June 30**		**Six months ended June 30**	
	2026	**2025**	**2026**	**2025**
Canada	$ 48	$ 27	$ 87	$ 53
U.S. Transborder	13	14	26	29
Atlantic	106	89	194	178
Pacific	111	85	186	161
Other	47	38	91	82
	$ 325	**$ 253**	**$ 584**	**$ 503**

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 revenues refer to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific revenues refer 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.

11. OTHER OPERATING EXPENSES

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

(Canadian dollars in millions)	**Three months ended June 30**		**Six months ended June 30**	
	2026	**2025**	**2026**	**2025**
Terminal handling	$ 147	$ 145	$ 292	$ 280
Crew cycle	98	86	183	165
Building rent and maintenance	85	76	182	155
Miscellaneous fees and services	95	78	155	139
Remaining other expenses	235	220	498	473
	$ 660	**$ 605**	**$ 1,310**	**$ 1,212**

In the second quarter of 2026, a provision of $28 million was recorded in miscellaneous fees and services in connection with a legal matter, with a related $41 million interest charge recorded in other non-operating expense.

12. SALE AND LEASEBACK OF ASSETS

In the second quarter of 2026, Air Canada completed sale and leaseback transactions for total proceeds of $218 million ($501 million for the six-month period ended June 30, 2026) which resulted in the recognition of a gain on sale of $36 million ($82 million for the six-month period ended June 30, 2026).

13. SUBSEQUENT EVENT

Minority equity investment in Aeroplan

On August 11, 2026, Air Canada announced that funds managed by Blackstone and La Caisse, together with other leading Canadian institutions, are making a $2.5 billion minority equity investment in Aeroplan Inc. The transaction terms provide that the investor group is acquiring a 25% non-controlling equity interest in Aeroplan. Air Canada will retain a 75% ownership interest and continue to control Aeroplan's operations, strategic direction and day-to-day management.

Air Canada will continue to consolidate Aeroplan in its consolidated financial statements and this investment will be reflected as a non-controlling interest within shareholders' equity. This investment includes minority investor protections.

The investors will be entitled to participate in distributions from Aeroplan, as and when declared by its board of directors, pursuant to an agreed distribution policy.

Air Canada will also have the right to repurchase the interest held by the investor group in Aeroplan between the fifth and eighth anniversaries of the transaction’s closing, as well as upon the occurrence of specified events. The repurchase price will be determined pursuant to an agreed formula that provides the investors with an internal rate of return of 6.5%, calculated net of all distributions.