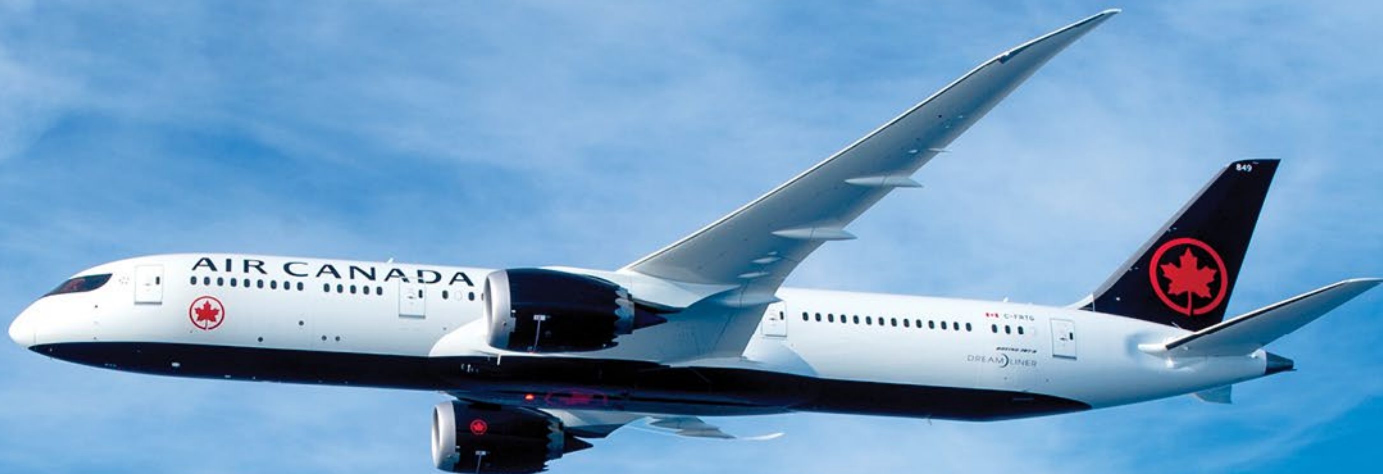

Second Quarter 2025

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

July 28, 2025

AIR CANADA

A STAR ALLIANCE MEMBER

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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 figures or where indicated)	Second Quarter			First Six Months		
Financial Performance Metrics	**2025**	**2024**	**$ Change**	**2025**	**2024**	**$ Change**
Operating revenues	5,632	5,519	113	10,828	10,745	83
Operating income	418	466	(48)	310	477	(167)
Operating margin (1) (%)	7.4	8.4	(1.0) pp (8)	2.9	4.4	(1.5) pp
Adjusted EBITDA (2)	909	914	(5)	1,296	1,367	(71)
Adjusted EBITDA margin (2) (%)	16.1	16.6	(0.5) pp	12.0	12.7	(0.7) pp
Income (loss) before income taxes	103	404	(301)	(64)	339	(403)
Net income	186	410	(224)	84	329	(245)
Adjusted pre-tax income (2)	300	371	(71)	85	277	(192)
Adjusted net income (2)	207	369	(162)	57	273	(216)
Total liquidity (3)	8,364	10,203	(1,839)	8,364	10,203	(1,839)
Net cash flows from operating activities	895	924	(29)	2,421	2,516	(95)
Free cash flow (2)	183	451	(268)	1,014	1,507	(493)
Net debt (2)	4,757	3,608	1,149	4,757	3,608	1,149
Diluted earnings per share	0.51	1.04	(0.53)	0.10	0.87	(0.77)
Adjusted earnings per share – diluted (2)	0.60	0.98	(0.38)	0.16	0.73	(0.57)
Operating Statistics (4)	**2025**	**2024**	**% Change**	**2025**	**2024**	**% Change**
Revenue passenger miles (RPMs) (millions)	22,796	22,449	1.5	42,683	42,969	(0.7)
Available seat miles (ASMs) (millions)	26,860	26,203	2.5	51,100	50,540	1.1
Passenger load factor %	84.9%	85.7%	(0.8) pp	83.5%	85.0%	(1.5) pp
Passenger revenue per RPM (Yield) (cents)	22.1	22.2	(0.7)	21.9	22.0	(0.1)
Passenger revenue per ASM (PRASM) (cents)	18.7	19.0	(1.7)	18.3	18.7	(1.8)
Operating revenue per ASM (TRASM) (cents)	21.0	21.1	(0.5)	21.2	21.3	(0.3)
Operating expense per ASM (CASM) (cents)	19.4	19.3	0.6	20.6	20.3	1.3
Adjusted CASM (cents) (2)	14.4	13.5	6.4	14.8	14.1	4.9
Average number of full-time-equivalent (FTE) employees (thousands) (5)	37.3	37.2	0.2	37.2	37.1	0.5
Aircraft in operating fleet at period-end	364	356	2.2	364	356	2.2
Seats dispatched (thousands)	14,478	14,213	1.9	27,817	27,692	0.4
Aircraft frequencies (thousands)	98.5	97.9	0.6	189.9	188.9	0.5
Average stage length (miles) (6)	1,855	1,844	0.6	1,837	1,825	0.7
Fuel cost per litre (cents)	88.0	104.3	(15.7)	92.9	104.9	(11.4)
Fuel litres (thousands)	1,271,963	1,273,467	(0.1)	2,463,407	2,458,185	0.2
Revenue passengers carried (thousands) (7)	11,551	11,588	(0.3)	21,934	22,339	(1.8)

(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, and amortization), 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 16 "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 June 30, 2025, of $8,364 million consisted of $7,037 million in cash, cash equivalents, short- and long-term

investments and $1,327 million available under undrawn credit facilities. As at June 30, 2024, total liquidity of $10,203 million consisted of $8,869 million in cash, cash equivalents, short- and long-term investments and $1,334 million available under undrawn credit facilities. These amounts also include funds ($168 million as at June 30, 2025, and $181 million as at June 30, 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 second quarter of 2025. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the second quarter of 2025 dated July 28, 2025. 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 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of July 28, 2025.

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 Air Canada's 2024 MD&A dated February 13, 2025 and section 14 "Risk Factors" of this MD&A. Air Canada issued a news release dated July 28, 2025 reporting on its results for the second quarter of 2025. This news release is available on Air Canada's investor relations website at **aircanada.com/investors** and on the 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. 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, which are amplified in the current environment. 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 conditions such as 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 its indebtedness and maintain or increase liquidity, 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 section18 "Risk Factors" of Air Canada's 2024 MD&A dated February 13, 2025 and section 14 "Risk Factors" of this MD&A.

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 (SAF), 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.

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 a marginal Canadian GDP growth for 2025. Air Canada also assumes that the Canadian dollar will trade, on average, at CDN$1.39 per U.S. dollar for the full year 2025 (previously CDN$1.40) and that the price of jet fuel will average CDN$0.92 (previously CDN$0.88) per litre for the full year 2025.

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 a capacity purchase agreement (CPA) with Jazz Aviation LP (Jazz), a wholly owned subsidiary of Chorus Aviation Inc., 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 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 the second quarter of 2025, operating revenues grew 2% year over year, recovering from the 1% decline in the first quarter of 2025. Overall demand for air travel remained stable, which supported 2% traffic growth on a 2.5% capacity increase year over year with good performance in Atlantic, Domestic and Latin American markets. Demand for travel to the United States remained below 2024 levels, resulting in traffic and capacity declines in transborder services.

Further, Cargo and Other revenues grew 10% and 16% from 2024, respectively. This largely reflected increased cargo volumes and yields in the Pacific and higher ground package revenues at Air Canada Vacations.

In the second quarter of 2025, operating expenses rose by 3% year over year. The increase was primarily due to higher labour expenses, depreciation, airport and navigation fees and ground package costs and was partially offset by lower jet fuel expense year over year.

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

Second Quarter 2025 Financial Summary

- Operating revenues of $5,632 million increased $113 million or 2% on 2.5% more operated capacity. The capacity increase was in line with the expectation communicated in Air Canada's news release dated May 8, 2025.
- Operating expenses of $5,214 million increased $161 million or 3%.
- Operating income of $418 million declined $48 million.
- Adjusted EBITDA of $909 million, with an adjusted EBITDA margin of 16.1%, decreased $5 million and 0.5 percentage points, respectively.
- Adjusted pre-tax income of $300 million declined $71 million.
- Net income of $186 million and diluted earnings per share of $0.51 compared to a net income of $410 million and diluted earnings per share of $1.04 in the same period of 2024.
- Adjusted net income of $207 million and adjusted earnings per diluted share of $0.60 compared to adjusted net income of $369 million and adjusted earnings per diluted share of $0.98.
- Adjusted CASM of 14.40 cents compared to 13.53 cents, an increase of 6.4%.
- Net cash flows from operating activities of $895 million decreased $29 million.
- Free cash flow of $183 million decreased $268 million.

5. RESULTS OF OPERATIONS

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

(Canadian dollars in millions, except where indicated)	Second Quarter				First Six Months			
	2025	2024	$ Change	% Change [1]	2025	2024	$ Change	% Change [1]
Operating revenues								
Passenger	$ 5,031	4,990	41	1	$ 9,362	$ 9,433	(71)	(1)
Cargo	253	230	23	10	503	445	58	13
Other	348	299	49	16	963	867	96	11
Total operating revenues	**5,632**	**5,519**	**113**	**2**	**10,828**	**10,745**	**83**	**1**
Operating expenses								
Aircraft fuel	1,148	1,333	(185)	(14)	2,334	2,587	(253)	(10)
Wages, salaries and benefits	1,247	1,071	176	16	2,386	2,179	207	9
Depreciation, amortization and impairment	491	448	43	10	986	890	96	11
Airport and navigation fees	407	372	35	9	764	720	44	6
Aircraft maintenance	341	335	6	2	674	650	24	4
Sales and distribution costs	275	269	6	2	540	535	5	1
Capacity purchase fees	219	217	2	1	439	425	14	3
Ground package costs	157	137	20	15	530	472	58	12
Communications and information technology	151	145	6	4	343	331	12	4
Catering and onboard services	173	154	19	12	310	309	1	-
Other	605	572	33	6	1,212	1,170	42	4
Total operating expenses	**5,214**	**5,053**	**161**	**3**	**10,518**	**10,268**	**250**	**2**
Operating income	**418**	**466**	**(48)**		**310**	**477**	**(167)**	
Non-operating income (expense)								
Foreign exchange gain (loss)	(190)	(2)	(188)		(201)	57	(258)	
Interest income	59	97	(38)		134	222	(88)	
Interest expense	(168)	(182)	14		(346)	(399)	53	
Interest capitalized	13	8	5		26	15	11	
Financial instruments recorded at fair value	6	29	(23)		60	40	20	
Loss on debt settlements	-	-	-		-	(46)	46	
Other	(35)	(12)	(23)		(47)	(27)	(20)	
Total non-operating expense	**(315)**	**(62)**	**(253)**		**(374)**	**(138)**	**(236)**	
Income (loss) before income taxes	**103**	**404**	**(301)**		**(64)**	**339**	**(403)**	
Income tax recovery (expense)	83	6	77		148	(10)	158	
Net income	**$ 186**	**410**	**$ (224)**		**$ 84**	**$ 329**	**$ (245)**	
Basic earnings per share	**$ 0.58**	**$ 1.14**	**$ (0.56)**		**$ 0.26**	**$ 0.92**	**$ (0.66)**	
Diluted earnings per share	**$ 0.51**	**$ 1.04**	**$ (0.53)**		**$ 0.10**	**$ 0.87**	**$ (0.77)**	
Adjusted EBITDA [2]	**$ 909**	**$ 914**	**$ (5)**		**$ 1,296**	**$ 1,367**	**$ (71)**	
Adjusted pre-tax income [2]	**$ 300**	**$ 371**	**$ (71)**		**$ 85**	**$ 277**	**$ (192)**	
Adjusted net income [2]	**$ 207**	**$ 369**	**$ (162)**		**$ 57**	**$ 273**	**$ (216)**	
Adjusted earnings per share – diluted [2]	**$ 0.60**	**$ 0.98**	**$ (0.38)**		**$ 0.16**	**$ 0.73**	**$ (0.57)**	

(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 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

System Passenger Revenues

In the second quarter of 2025, passenger revenues of $5,031 million grew 1% year over year, on a 2.5% capacity growth. Revenue growth was driven by a strong demand in the Atlantic, Domestic and Latin American markets and was partially offset by the traffic decline in the transborder market.

The performance in the Atlantic markets was the result of a 2% increase in yield with stable load factors year over year. Factors supporting the increase in revenues included strong performance in sixth freedom traffic and the impact of Easter shifting into the second quarter of 2025.

The year-over-year decrease in transborder passenger revenues was attributed to lower traffic year over year. Some of the factors negatively impacting demand for travel to the U.S. included the impact of a weaker Canadian dollar versus the U.S. dollar and geopolitical and macroeconomic concerns as a result of the statements and uncertainty surrounding U.S. tariffs and related countermeasures.

Revenues from premium cabins continued to perform well, growing 5% from the second quarter of 2024. Sixth freedom revenues also performed well in the second quarter, growing 17% year over year.

In the first six months of 2025, passenger revenues decreased 1%, mainly due to the reduced traffic in the Transborder market, notably in the second quarter, and lower yields in the Pacific markets year over year. The decline was partially offset by revenue growth in the Domestic, Atlantic and Latin American markets.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2025	2024	$ Change	% Change (1)	2025	2024	$ Change	% Change (1)
Canada	$ 1,379	$ 1,336	$ 43	3.2	$ 2,501	$ 2,457	$ 44	1.8
U.S. transborder	961	1,080	(119)	(11.0)	1,952	2,119	(167)	(7.9)
Atlantic	1,644	1,563	81	5.2	2,583	2,538	45	1.8
Pacific	702	701	1	0.2	1,333	1,372	(39)	(2.8)
Other	345	310	35	11.1	993	947	46	4.8
System	**$ 5,031**	**$ 4,990**	**$ 41**	**0.8**	**$ 9,362**	**$ 9,433**	**$ (71)**	**(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.

	Second Quarter 2025 versus Second Quarter 2024					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	3.2	5.7	4.6	(0.9)	(1.3)	(2.4)
U.S. transborder	(11.0)	(8.4)	(12.4)	(3.6)	1.6	(2.8)
Atlantic	5.2	3.4	3.4	0.0	1.7	1.7
Pacific	0.2	5.3	4.5	(0.8)	(4.1)	(4.9)
Other	11.1	8.8	9.5	0.5	1.5	2.1
System	**0.8**	**2.5**	**1.5**	**(0.8)**	**(0.7)**	**(1.7)**

	First Six Months 2025 versus First Six Months 2024					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	1.8	5.1	3.4	(1.4)	(1.5)	(3.2)
U.S. transborder	(7.9)	(6.4)	(9.7)	(2.9)	2.0	(1.6)
Atlantic	1.8	0.5	(0.9)	(1.2)	2.7	1.2
Pacific	(2.8)	3.4	1.5	(1.7)	(4.3)	(6.0)
Other	4.8	4.6	4.1	(0.4)	0.7	0.2
System	**(0.8)**	**1.1**	**(0.7)**	**(1.5)**	**(0.1)**	**(1.8)**

Domestic Passenger Revenues

In the second quarter of 2025 and first six months of 2025, domestic passenger revenues of $1,379 million and $2,501 million increased 3% and 2% year over year, respectively. The growth was attributed to the increase in operated capacity and traffic year over year. Lower yields year-over-year partially offset the increases.

U.S. Transborder Passenger Revenues

In the second quarter of 2025 and first six months of 2025, transborder passenger revenues of $961 million and $1,952 million declined 11% and 8% year over year, respectively. This was largely due to lower traffic reflecting weaker demand for transborder destinations. Better yields year over year partially offset the traffic decline.

Performance in the transborder market reflected, in part, the impact of increased foreign exchange volatility leading to a weaker Canadian dollar versus the U.S. dollar and geopolitical and macroeconomic concerns as a result of actions, statements and uncertainty surrounding U.S. tariffs and related countermeasures, both of which negatively impacted travel demand. In response, Air Canada reduced its capacity in the transborder market in the second quarter and first six months of 2025.

Atlantic Passenger Revenues

In the second quarter of 2025, Atlantic passenger revenues of $1,644 million increased 5% year over year. This was due to the 3% growth in capacity with better yields and flat load factors year over year. The performance reflected Easter moving into the second quarter of 2025.

In the first six months of 2025, Atlantic passenger revenues of $2,583 million increased 2%, driven by a 3% increase in yield in the region.

Pacific Passenger Revenues

In the second quarter of 2025, Pacific passenger revenues of $702 million were flat year over year. The year-over-year growth in capacity and traffic was essentially offset by lower yields resulting from supply and demand normalizing following a significant industry capacity growth in the Pacific market in 2024 and in the first six months of 2025.

In the first six months of 2025, Pacific passenger revenues of $1,333 million decreased 3% due to lower yields year over year as supply and demand normalized following a significant capacity growth in the Pacific market in 2024 and in the first six months of 2025.

Other Passenger Revenues

In the second quarter of 2025 and first six months of 2025, other passenger revenues of $345 million and $993 million increased 11% and 5% year over year, respectively. The increases were due to increased demand driving year-over-year growth in traffic, capacity and yields.

Cargo Revenues

Cargo revenues increased 10% in the second quarter of 2025 and 13% in the first six months of 2025 compared to the same periods in 2024. This growth was attributed to increased volume in the Pacific market and stronger yields year over year in the Pacific and Latin American markets.

The year over year performance also reflected increased shipping activity as shippers adjusted to changes in tariff deadlines and U.S. changes to the duty-free exemption rules on low-value goods.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2025	2024	$ Change	% Change (1)	2025	2024	$ Change	% Change (1)
Canada	$ 27	$ 23	$ 4	13.1	$ 53	$ 48	$ 5	9.3
U.S. transborder	14	14	-	-	29	26	3	14.4
Atlantic	89	89	-	-	178	173	5	3.3
Pacific	85	71	14	18.8	161	133	28	20.4
Other	38	33	5	17.2	82	65	17	25.7
System	**$ 253**	**$ 230**	**$ 23**	**9.9**	**$ 503**	**$ 445**	**$ 58**	**13.0**

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

Other Revenues

Other revenues increased 16% in the second quarter of 2025 and 11% in the first six months of 2025 compared to the same periods in 2024. The increases reflected higher ground package revenues at Air Canada Vacations as a result of higher prices and, to a lesser extent, growth in the volume of passengers year over year. Higher non-air revenues related to the Aeroplan program also contributed to the increases.

Operating Expenses

In the second quarter and first six months of 2025, operating expenses rose 3% and 2%, respectively, from the same periods in 2024. This was mostly due to higher labour expenses, depreciation, airport and navigation fees and ground package costs. The increases also accounted for the impact of a weaker Canadian dollar on U.S.-dollar-denominated expenses, which was particularly evident between January and May 2025. The growth was partially offset by lower aircraft fuel expense resulting from lower jet fuel prices year over year.

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

Aircraft fuel

In the second quarter and in the first six months of 2025, aircraft fuel expense declined 14% and 10% year over year, respectively. The declines were due to lower jet fuel prices year over year, inclusive of a hedging gain of $19 million, and were partially offset by an unfavourable foreign exchange variance and more jet fuel litres used from the capacity increase.

Wages, salaries and benefits

In the second quarter and in the first six months of 2025, wages, salaries and benefits increased 16% and 9% year over year, respectively. The increases were primarily due to higher average salaries due to pay rate increases for eligible employee groups, accruals for wage-related initiatives and higher benefits expense. Employee profit sharing accruals and higher stock-based compensation due to the share price appreciation also contributed to the year over year increases.

Depreciation, amortization and impairment

In the second quarter and in the first six months of 2025, depreciation, amortization, and impairment increased 10% and 11% year over year, respectively. The increases were due to a larger number of capitalized maintenance events on various fleet types and the addition of aircraft to the operating fleet in 2024 and in the first six months of 2025.

Airport and navigation fees

In the second quarter and in the first six months of 2025, airport and navigation fees rose 9% and 6% year over year, respectively. The increases reflected increased flying activity, higher navigation and airport rates and the impact of an unfavourable foreign exchange variance year over year.

Ground package costs

In the second quarter and in the first six months of 2025, ground package costs rose 15% and 12% year over year, respectively. The increases reflected higher rates year over year, including the impact of an unfavourable foreign exchange variance. To a lesser extent, higher volume of passengers also contributed to the increase.

Catering and onboard services

In the second quarter of 2025, catering and onboard services increased 12% from the same period in 2024. The increase largely reflected higher food costs, traffic mix and higher traffic year over year, as well as incremental costs due to product enhancements.

In the first six months of 2025, catering and onboard services were flat year over year.

Other operating expenses

In the second quarter and in the first six months of 2025, other operating expenses rose 6% and 4% year over year, respectively. The increases reflected higher miscellaneous fees and services and crew cycle costs due to higher costs for crew accommodation, crew-related expenses, and the impact of an unfavourable variance in foreign exchange year over year.

In the first quarter of 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 the first quarter of 2024.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2025	2024	$ Change	% Change (1)	2025	2024	$ Change	% Change (1)
Terminal handling	$ 145	$ 133	$ 12	9	$ 280	$ 264	$ 16	6
Crew cycle	86	75	11	15	165	142	23	16
Building rent and maintenance	76	79	(3)	(4)	155	161	(6)	(4)
Miscellaneous fees and services	78	52	26	50	139	110	29	26
Remaining other expenses	220	233	(13)	(6)	473	493	(20)	(4)
Total other expenses	**$ 605**	**$ 572**	**$ 33**	**6**	**$ 1,212**	**$ 1,170**	**$ 42**	**4**

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

CASM and Adjusted CASM

In the second quarter and first six months of 2025, CASM increased 0.6% and 1.3%, respectively, from the same periods in 2024. Lower aircraft fuel expense and the capacity growth partially offset the operating expense increases described above.

In the second quarter and first six months of 2025, adjusted CASM increased 6.4% and 4.9%, respectively, from the same periods in 2024. The increases reflected higher labour, depreciation, amortization and impairment expenses and airport and navigation fees and catering costs, as described above. The increases were partially offset by the year-over-year capacity growth.

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

(Cents per ASM)	Second Quarter				First Six Months			
	2025	2024	¢ Change	% Change (1)	2025	2024	¢ Change	% Change (1)
CASM	**¢ 19.41**	**¢ 19.28**	**¢ 0.13**	**0.6**	**¢ 20.58**	**¢ 20.32**	**¢ 0.26**	**1.3**
Remove:								
Aircraft fuel expense, ground package costs and freighter costs	(5.01)	(5.75)	0.74	(12.9)	(5.77)	(6.20)	0.43	(6.9)
Adjusted CASM	**¢ 14.40**	**¢ 13.53**	**¢ 0.87**	**6.4**	**¢ 14.81**	**¢ 14.12**	**¢ 0.69**	**4.9**

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

Non-Operating Expense

In the second quarter and first six months of 2025, non-operating expenses totalled $315 million and $374 million, respectively, compared to non-operating expenses of $62 million and $138 million, respectively, in the second quarter and first six months of 2024.

Foreign exchange loss amounted to $190 million in the second quarter of 2025 and $201 million in the first six months of 2025. The June 30, 2025, closing exchange rate was US$1=$1.3608 compared to US$1=$1.4387 at March 31, 2025, and US$1=$1.4384 at December 31, 2024. During the second quarter of 2025, foreign exchange loss related to foreign exchange derivatives was $726 million ($721 loss million for the six-month period ended June 30, 2025.). These losses were partially offset by the favourable revaluation of U.S. dollar-denominated debt and lease liabilities resulting from the strengthening of the Canadian dollar versus the U.S. dollar at the end of the second quarter of 2025.

Interest expense of $168 million and $346 million in the second quarter and first six months of 2025, decreased $14 million and $53 million, respectively, from the same periods in 2024. The declines were largely due to lower debt levels resulting from debt prepayments made in 2024 and lower interest rates year over year.

A loss on debt settlement of $46 million was recorded in the first quarter of 2024, related to the write-off of unamortized debt issuance costs associated with the refinancing transaction completed in March 2024.

6. FLEET

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.

AIR CANADA	Actual			Planned			
	Dec. 31, 2024	Year to date Changes	June 30, 2025	Remainder of 2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026
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
Boeing 767-300 freighters	6	-	6	-	6	-	6
Airbus A330-300	20	-	20	-	20	-	20
Total wide-body aircraft	90	1	91	-	91	2	93
Narrow-body aircraft							
Boeing 737 MAX 8	41	6	47	1	48	4	52
Airbus A321XLR	-	-	-	-	-	11	11
Airbus A321	20	-	20	-	20	-	20
Airbus A320	22	-	22	(2)	20	-	20
Airbus A319	5	-	5	(5)	-	-	-
Airbus A220-300	34	3	37	5	42	18	60
Total narrow-body aircraft	122	9	131	(1)	130	33	163
Total Mainline	**212**	**10**	**222**	**(1)**	**221**	**35**	**256**

AIR CANADA rouge	Actual			Planned			
	Dec. 31, 2024	Year to date Changes	June 30, 2025	Remainder of 2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026
Narrow-body aircraft							
Airbus A321	14	-	14	-	14	-	14
Airbus A320	5	-	5	-	5	-	5
Airbus A319	18	-	18	-	18	-	18
Total Air Canada Rouge	**37**	**-**	**37**	**-**	**37**	**-**	**37**

Total Mainline & Rouge	**249**	**10**	**259**	**(1)**	**258**	**35**	**293**

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.

	Actual			Planned			
	Dec. 31, 2024	Year to date Changes	June 30, 2025	Remainder of 2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-900	35	-	35	(4)	31	(1)	30
De Havilland Dash 8-400	45	-	45	(3)	42	(6)	36
Total Air Canada Express	**105**	**-**	**105**	**(7)**	**98**	**(7)**	**91**

7. FINANCIAL AND CAPITAL MANAGEMENT

7.1 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 7.5 "Capital Expenditures and Related Financing Arrangements", 7.6 "Pension Funding Obligations", and 7.7 "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 7.2 "Net Debt" of this MD&A

At June 30, 2025, total liquidity was $8,364 million comprised of cash and cash equivalents, short-term and long-term investments of $7,037 million, and $1,327 million available under undrawn credit facilities. Cash and cash equivalents included $168 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.

7.2 NET DEBT

The table below reflects Air Canada's net debt balances as at June 30, 2025, and December 31, 2024.

(Canadian dollars in millions)	June 30, 2025	December 31, 2024	Change
Total long-term debt and lease liabilities	$ 10,247	$ 10,915	$ (668)
Current portion of long-term debt and lease liabilities	1,547	1,755	(208)
Total long-term debt and lease liabilities (including current portion)	**11,794**	**12,670**	**(876)**
Less cash, cash equivalents and short and long-term investments	(7,037)	(7,752)	715
Net debt (1)	**$ 4,757**	**$ 4,918**	**$ (161)**
Adjusted EBITDA (trailing 12 months)	**$ 3,515**	**3,586**	**(71)**
Net debt to adjusted EBITDA ratio (1)	**1.4**	**1.4**	**-**

(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 16 "Non-GAAP Financial Measures" of this MD&A.

Net debt to adjusted EBITDA ratio was 1.4 at June 30, 2025, unchanged from December 31, 2024. Net debt decreased $161 million reflecting a decrease in total long-term debt partially offset by a decrease in the liquidity balance, which saw the use of $827 million for the purchase of shares for cancellation in 2025 (as discussed in section 7.8 "Share Information" of this MD&A) supported by free cash flow of $1,014 million in the first six months of 2025.

7.3 WORKING CAPITAL

The table below provides information on Air Canada's working capital balances at June 30, 2025, and December 31, 2024.

(Canadian dollars in millions)	June 30, 2025	December 31, 2024	Change
Cash, cash equivalents and short-term investments	$ 6,359	$ 6,982	$ (623)
Accounts receivable	1,170	1,089	81
Other current assets	760	991	(231)
Total current assets	**$ 8,289**	**$ 9,062**	**$ (773)**
Accounts payable and accrued liabilities	4,469	3,718	751
Advance ticket sales	5,447	4,387	1,060
Aeroplan and other deferred revenues	1,683	1,588	95
Current portion of long-term debt and lease liabilities	1,547	1,755	(208)
Total current liabilities	**$ 13,146**	**$ 11,448**	**$ 1,698**
Net working capital	**$ (4,857)**	**$ (2,386)**	**$ (2,471)**

Net working capital deficiency of $4,857 million at June 30, 2025, reflected the use of $827 million for the purchase of shares for cancellation as discussed in section 7.8 "Share Information" of this MD&A and $1,407 million for capital investments.

7.4 CASH FLOW MOVEMENTS

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

	Second Quarter			First Six Months		
(Canadian dollars in millions)	**2025**	**2024**	**$ Change**	**2025**	**2024**	**$ Change**
Net cash flows from operating activities	$ 895	$ 924	$ (29)	$ 2,421	$ 2,516	$ (95)
Net cash flows used in financing activities	(1,147)	(235)	(912)	(1,708)	(1,940)	232
Net cash flows from (used in) investing activities	241	(385)	626	104	(378)	482
Effect of exchange rate changes on cash and cash equivalents	(14)	1	(15)	1	6	(5)
Increase (decrease) in cash and cash equivalents	**$ (25)**	**$ 305**	**$ (330)**	**$ 818**	**$ 204**	**$ 614**

Net Cash Flows from Operating Activities

Net cash flows from operating activities were positive in the second quarter and first six months of 2025, although lower than the same period in 2024 reflecting the year-over-year decline in adjusted EBITDA.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities amounted to $1,708 million in the first six months of 2025 and included $827 million for the purchase of shares for cancellation as discussed in section 7.8 "Share Information" of this MD&A. 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 From (Used in) Investing Activities

Net cash flows from investing activities amounted to $241 million in the second quarter and $104 million in the first six months of 2025. Net proceeds of $1,490 million in disposal of short- and long-term investments supported the $827 million used for purchase for cancellation of approximately 42 million shares in the first six months of 2025. Additions to property, equipment and intangible assets were $712 million in the second quarter of 2025 and $1,407 million in the first half of 2025, a year-over-year increase of $239 million and $398 million, respectively. Included in 2025 are one Boeing 787-9 aircraft (delivered in March 2025), three Airbus A220 aircraft (delivered in June 2025), capitalized maintenance and pre-delivery deposits for aircraft that are scheduled to be delivered in future periods.

By comparison, the first six months of 2024 included net proceeds of $640 million in disposal of short- and long-term investments to facilitate the $1.475 billion (US$1.09 billion) net repayment of long-term debt in March 2024.

Free Cash Flow

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

(Canadian dollars in millions)	Second Quarter			First Six Months		
	2025	2024	$ Change	2025	2024	$ Change
Net cash flows from operating activities	**$ 895**	**$ 924**	**$ (29)**	**$ 2,421**	**$ 2,516**	**$ (95)**
Additions to property, equipment, and intangible assets	(712)	(473)	(239)	(1,407)	(1,009)	(398)
Free cash flow (1)	**$ 183**	**$ 451**	**$ (268)**	**$ 1,014**	**$ 1,507**	**$ (493)**

(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 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

In the second quarter and first six months of 2025, free cash flow totalled $183 million and $1,014 million respectively. This was lower than the comparative 2024 periods driven primarily by higher capital expenditures.

7.5 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, 37 have been delivered. Deliveries for the 28 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.

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 is acquiring 18 Boeing 787-10 aircraft. Deliveries are scheduled to begin in 2026. The purchase agreement includes options for 12 additional Boeing 787-10 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 June 30, 2025, amounted to $11,584 million.

(Canadian dollars in millions)	Remainder of 2025	2026	2027	2028	2029	Thereafter	Total
Committed expenditures	$ 1,062	$ 2,815	$ 3,038	$ 1,348	$ 818	$ 2,503	$ 11,584
Projected planned but uncommitted expenditures	339	692	872	924	801	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	228	765	723	589	559	Not available	Not available
Total projected expenditures (2)	**$ 1,629**	**$ 4,272**	**$ 4,633**	**$ 2,861**	**$ 2,178**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2028 and beyond are not yet determinable, however estimates of $589 million and $559 million have been made for 2028 and 2029, respectively.

(2) U.S. dollar amounts are converted using the June 30, 2025, closing exchange rate of US$1=CDN$1.3608. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

7.6 PENSION FUNDING OBLIGATIONS

At January 1, 2025, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $4.4 billion. 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.

Air Canada's pension funding obligations are discussed in section 8.6 "Pension Funding Obligations" of Air Canada's 2024 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

7.7 CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at June 30, 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)	Remainder of 2025	2026	2027	2028	2029	Thereafter	Total
Principal							
Long-term debt (1)	$ 563	$ 2,394	$ 1,052	$ 1,372	$ 2,293	$ 1,919	$ 9,593
Lease liabilities	277	431	347	280	181	915	2,431
Total principal obligations	**$ 840**	**$ 2,825**	**$ 1,399**	**$ 1,652**	**$ 2,474**	**$ 2,834**	**$ 12,024**
Interest							
Long-term debt	$ 213	$ 381	$ 264	$ 226	$ 211	$ 125	$ 1,420
Lease liabilities	65	113	89	71	56	310	704
Total interest obligations	**$ 278**	**$ 494**	**$ 353**	**$ 297**	**$ 267**	**$ 435**	**$ 2,124**
Total long-term debt and lease liabilities	**$ 1,118**	**$ 3,319**	**$ 1,752**	**$ 1,949**	**$ 2,741**	**$ 3,269**	**$ 14,148**
Committed capital expenditures	**$ 1,062**	**$ 2,815**	**$ 3,038**	**$ 1,348**	**$ 818**	**$ 2,503**	**$ 11,584**
Total contractual obligations (2)	**$ 2,180**	**$ 6,134**	**$ 4,790**	**$ 3,297**	**$ 3,559**	**$ 5,772**	**$ 25,732**

(1) The full principal balance of $1,273 million for the unsecured credit facility and $1,579 million (US$1,160 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.

7.8 SHARE INFORMATION

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

	June 30, 2025	December 31, 2024
Issued and outstanding shares		
Class A variable voting shares	65,107,328	102,314,033
Class B voting shares	231,023,908	237,525,089
Total issued and outstanding shares	**296,131,236**	**339,839,122**
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	17,856,599	17,856,599
Stock options	12,393,932	9,230,773
Total shares potentially issuable	**30,250,531**	**27,087,372**
Total outstanding and potentially issuable shares	**326,381,767**	**366,926,494**

Normal Course Issuer Bid

In the fourth quarter of 2024, 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 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 Issuer Bid, 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 Issuer Bid.

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.

Convertible Notes

The convertible notes were settled with cash following their maturity on July 1, 2025, reducing the number of potentially issuable shares.

8. QUARTERLY FINANCIAL DATA

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

	2023		2024				2025	
(Canadian dollars in millions, except per share figures)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Operating revenues	$ 6,344	$ 5,175	$ 5,226	$ 5,519	$ 6,106	$ 5,404	$ 5,196	$ 5,632
Operating expenses	4,929	5,096	5,215	5,053	5,066	5,658	5,304	5,214
Operating income (loss)	**1,415**	**79**	**11**	**466**	**1,040**	**(254)**	**(108)**	**418**
Non-operating income (expense)	**(98)**	**43**	**(76)**	**(62)**	**(143)**	**(467)**	**(59)**	**(315)**
Income (loss) before income taxes	**1,317**	**122**	**(65)**	**404**	**897**	**(721)**	**(167)**	**103**
Income tax recovery (expense)	(67)	62	(16)	6	1,138	77	65	83
Net income (loss)	**$ 1,250**	**$ 184**	**$ (81)**	**$ 410**	**$ 2,035**	**$ (644)**	**$ (102)**	**$ 186**
Basic earnings (loss) per share	**$ 3.49**	**$ 0.51**	**$ (0.22)**	**$ 1.14**	**$ 5.68**	**$ (1.81)**	**$ (0.31)**	**$ 0.58**
Diluted earnings (loss) per share	**$ 3.08**	**$ 0.41**	**$ (0.22)**	**$ 1.04**	**$ 5.38**	**$ (1.81)**	**$ (0.40)**	**$ 0.51**
Adjusted EBITDA (1)	**$ 1,830**	**$ 521**	**$ 453**	**$ 914**	**$ 1,523**	**$ 696**	**$ 387**	**$ 909**
Adjusted pre-tax income (loss) (1)	**$ 1,278**	**$ (47)**	**$ (94)**	**$ 371**	**$ 985**	**$ 135**	**$ (215)**	**$ 300**
Adjusted net income (loss) (1)	**$ 1,281**	**$ (44)**	**$ (96)**	**$ 369**	**$ 969**	**$ 93**	**$ (150)**	**$ 207**
Adjusted earnings (loss) per share – diluted (1)	**$ 3.41**	**$ (0.12)**	**$ (0.27)**	**$ 0.98**	**$ 2.57**	**$ 0.25**	**$ (0.45)**	**$ 0.60**

(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 16 "Non-GAAP Financial Measures" of this MD&A.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 11 "Financial Instruments and Risk Management" of Air Canada's 2024 MD&A. There have been no material changes to Air Canada's financial instruments and risk management practices from what was disclosed at that time except as otherwise described below. Additional information on Air Canada's risk management practices and financial instruments is provided in Note 8 of Air Canada's interim unaudited condensed consolidated financial statements for the second quarter of 2025.

Fuel Price Risk Management

In April 2025, Air Canada hedged approximately 22% and 17% of anticipated purchases of jet fuel for Q2 and Q3 2025, respectively, at an average jet fuel price of US$0.48 per litre. Air Canada's contracts to hedge anticipated jet fuel purchases are composed of jet fuel swaps.

During the second quarter of 2025, fuel derivative contracts cash settled with a value of $19 million in Air Canada's favour with a hedging gain of $19 million recorded in Aircraft fuel expense. No hedge ineffectiveness was recorded. The fair value of fuel derivatives as at June 30, 2025, was $22 million in favour of Air Canada.

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2024 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2024 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Additional information on Air Canada's accounting policies is provided in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the second quarter of 2025.

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Air Canada's critical accounting estimates and judgments are summarized in section 13 "Critical Accounting Estimates and Judgments" of Air Canada's 2024 MD&A. There have been no material changes to critical accounting estimates and judgments from what was disclosed at that time.

12. OFF-BALANCE SHEET ARRANGEMENTS

Air Canada's off-balance sheet arrangements are summarized in section 14 "Off-Balance Sheet Arrangements" of Air Canada's 2024 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

13. RELATED PARTY TRANSACTIONS

At June 30, 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 2024, for additional information on these plans.

14. RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 18 "Risk Factors" of Air Canada's 2024 MD&A. There have been no material changes to Air Canada's risk factors from what was disclosed at that time.

15. CONTROLS AND PROCEDURES

Air Canada's controls and procedures are summarized in section 19 "Controls and Procedures" of Air Canada's 2024 MD&A. There have been no material changes to Air Canada's controls and procedures from what was disclosed at that time.

16. 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 the company 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.

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 June 30, 2025, and at June 30, 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)	Second Quarter			First Six Months		
	2025	2024	Change	2025	2024	Change
Operating expense – GAAP	**$ 5,214**	**$ 5,053**	**$ 161**	**$ 10,518**	**$ 10,268**	**$ 250**
Adjusted for:						
Aircraft fuel	(1,148)	(1,333)	185	(2,334)	(2,587)	253
Ground package costs	(157)	(137)	(20)	(530)	(472)	(58)
Freighter costs (excluding fuel)	(42)	(38)	(4)	(84)	(73)	(11)
Operating expense, adjusted for the above-noted items	**$ 3,867**	**$ 3,545**	**$ 322**	**7,570**	**7,136**	**434**
ASMs (millions)	**26,860**	**26,203**	**2.5%**	**51,100**	**50,540**	**1.1%**
Adjusted CASM (cents)	**¢ 14.40**	**¢ 13.53**	**¢ 0.87**	**¢ 14.81**	**¢ 14.12**	**¢ 0.69**

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and impairment) 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, amortization and impairment 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)	Second Quarter			First Six Months		
	2025	2024	Change	2025	2024	Change
Operating income – GAAP	**$ 418**	**$ 466**	**$ (48)**	**$ 310**	**$ 477**	**$ (167)**
Add back:						
Depreciation, amortization and impairment	491	448	43	986	890	96
Adjusted EBITDA	**$ 909**	**$ 914**	**$ (5)**	**$ 1,296**	**$ 1,367**	**$ (71)**
Operating revenues	**$ 5,632**	**$ 5,519**	**$ 113**	**$ 10,828**	**$ 10,745**	**$ 83**
Operating margin (%)	**7.4**	**8.4**	**(1.0) pp**	**2.9**	**4.4**	**(1.5) pp**
Adjusted EBITDA margin (%)	**16.1**	**16.6**	**(0.5) pp**	**12.0**	**12.7**	**(0.7) 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 for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in the second quarter of 2025. As this item is non-recurring and cash-neutral to Air Canada, since it recorded a related tax refund, it has been excluded from adjusted pre-tax income.

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

(Canadian dollars in millions)	Second Quarter			First Six Months		
	2025	2024	Change	2025	2024	Change
Income (loss) before income taxes – GAAP	**$ 103**	**$ 404**	**$ (301)**	**$ (64)**	**$ 339**	**$ (403)**
Adjusted for:						
Foreign exchange (gain) loss	190	2	188	201	(57)	258
Net interest relating to employee benefits	(5)	(6)	1	(10)	(11)	1
Gain on financial instruments recorded at fair value	(6)	(29)	23	(60)	(40)	(20)
Loss on debt settlements	-	-	-	-	46	(46)
Other corporate expenses	18	-	18	18	-	18
Adjusted pre-tax income	**$ 300**	**$ 371**	**$ (71)**	**$ 85**	**$ 277**	**$ (192)**

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 for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in the second quarter of 2025. As this item is non-recurring and cash-neutral to Air Canada, since it recorded a related tax refund, it has been excluded from adjusted net income.

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

(Canadian dollars in millions, except per share figures)	Second Quarter			First Six Months		
	2025	2024	Change	2025	2024	Change
Net income – GAAP	**$ 186**	**$ 410**	**$ (224)**	**$ 84**	**$ 329**	**$ (245)**
Adjusted for:						
Foreign exchange (gain) loss	190	2	188	201	(57)	258
Net interest relating to employee benefits	(5)	(6)	1	(10)	(11)	1
Gain on financial instruments recorded at fair value	(6)	(29)	23	(60)	(40)	(20)
Loss on debt settlements	-	-	-	-	46	(46)
Other corporate expenses	18	-	18	18	-	18
Income tax, including for the above reconciling items	(176)	(8)	(168)	(176)	6	(182)
Adjusted net income	**$ 207**	**$ 369**	**$ (162)**	**$ 57**	**$ 273**	**$ (216)**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	341	376	(35)	344	376	(32)
Adjusted earnings (loss) per share – diluted	**$ 0.60**	**$ 0.98**	**$ (0.38)**	**$ 0.16**	**$ 0.73**	**$ (0.57)**

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

(In millions)	Second Quarter		First Six Months	
	2025	2024	2025	2024
Weighted average number of shares outstanding – basic	**323**	**358**	**326**	**358**
Effect of dilution	18	18	18	18
Weighted average number of shares outstanding – diluted	**341**	**376**	**344**	**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 7.4 "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 7.2 "Net Debt" of this MD&A for a reconciliation of this non-GAAP measure to the nearest measure under GAAP.

17. 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 16 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 16 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 16 "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 16 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 16 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 7.4 "Cash Flow Movements" and 16 "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 7.2 "Net Debt" and 16 "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 7.2 "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.