Second Quarter 2026

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

August 11, 2026

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 data or where indicated)	Second Quarter			First Six Months		
Financial Performance Metrics	**2026**	**2025**	**$ Change**	**2026**	**2025**	**$ Change**
Operating revenues	6,266	5,632	634	12,051	10,828	1,223
Operating income (loss)	(215)	418	(633)	(98)	310	(408)
Operating margin (1) (%)	(3.4)	7.4	(10.8) pp (8)	(0.8)	2.9	(3.7) pp
Adjusted EBITDA (2)	719	909	(190)	1,342	1,296	46
Adjusted EBITDA margin (2) (%)	11.5	16.1	(4.6) pp	11.1	12.0	(0.9) pp
Income (loss) before income taxes	(316)	103	(419)	(193)	(64)	(129)
Net income (loss)	(178)	186	(364)	(130)	84	(214)
Adjusted pre-tax income (2)	77	300	(223)	95	85	10
Adjusted net income (2)	114	207	(93)	98	57	41
Total liquidity (3)	8,910	8,364	546	8,910	8,364	546
Net cash flows from operating activities	651	895	(244)	2,449	2,421	28
Free cash flow (2)	174	183	(9)	1,778	1,014	764
Net debt (2)	5,270	4,757	513	5,270	4,757	513
Long-term debt and lease liabilities	12,794	11,794	1,000	12,794	11,794	1,000
Diluted earnings (loss) per share	(0.63)	0.51	(1.14)	(0.45)	0.10	(0.55)
Adjusted earnings per share – diluted (2)	0.40	0.60	(0.20)	0.34	0.16	0.18
Operating Statistics (4)	**2026**	**2025**	**Change %**	**2026**	**2025**	**Change %**
Revenue passenger miles (RPMs) (millions)	23,597	22,796	3.4	44,970	42,683	5.4
Available seat miles (ASMs) (millions)	26,942	26,860	0.3	51,771	51,100	1.3
Passenger load factor %	87.5%	84.9%	2.6 pp	86.9%	83.5%	3.4 pp
Passenger revenue per RPM (Yield) (cents)	23.7	22.1	7.2	23.1	21.9	5.1
Passenger revenue per ASM (PRASM) (cents)	20.7	18.7	10.5	20.0	18.3	9.3
Operating revenue per ASM (TRASM) (cents)	23.3	21.0	10.9	23.3	21.2	9.9
Operating expense per ASM (CASM) (cents)	24.1	19.4	23.9	23.5	20.6	14.0
Adjusted CASM (cents) (2)	15.5	14.4	7.4	15.8	14.8	6.5
Average number of full-time-equivalent (FTE) employees (thousands) (5)	37.0	37.3	(0.8)	36.5	37.2	(2.1)
Aircraft in operating fleet at period-end	357	364	(1.9)	357	364	(1.9)
Seats dispatched (thousands)	14,644	14,478	1.2	28,049	27,817	0.8
Aircraft frequencies (thousands)	100.3	98.5	1.8	192.4	189.9	1.3
Average stage length (miles) (6)	1,840	1,855	(0.8)	1,846	1,837	0.5
Fuel cost per litre (cents)	132.7	88.0	50.8	115.7	92.9	24.5
Fuel litres (thousands)	1,273,971	1,271,963	0.2	2,479,145	2,463,407	0.6
Revenue passengers carried (thousands) (7)	12,032	11,551	4.2	22,992	21,934	4.8

(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, amortization and impairment), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 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, 2026, of $8,910 million, consisted of $7,524 million in cash, cash equivalents, and short- and long-term

investments, and $1,386 million available under undrawn credit facilities. As at June 30, 2025, total liquidity 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. These amounts also include funds ($188 million as at June 30, 2026 and $168 million as at June 30, 2025) 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) The acronym "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 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 2026. 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 2026 dated August 11, 2026, and 2025 annual consolidated financial statements and notes dated February 12, 2026. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IFRS Accounting Standards), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of August 11, 2026.

We describe risks relating to Air Canada in section 18 "Risk Factors" of Air Canada's 2025 MD&A and section 14 "Risk Factors" of this MD&A. 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

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

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

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic conditions, including high or volatile fuel prices or significant disruptions in the supply of aircraft fuel, including as a result of the military conflict in the Middle East, statements or actions by governments and uncertainty relating to the imposition of (or threats to impose) tariffs on Canadian exports or imports and their resulting impacts on the Canadian, North American and global economies and travel demand, geopolitical and security conditions including in relation to the military conflicts in the Middle East and between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, Air Canada's dependence on technology, cybersecurity risks, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), employee and labour relations and costs, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay or refinance its indebtedness and maintain or increase liquidity on favourable terms and on a timely basis, Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, epidemic diseases, changes in laws, regulatory developments or proceedings, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations as well as the factors identified in

Air Canada's public disclosure file available at **www.sedarplus.ca** and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2025 MD&A 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 aspirations 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—including current demand trends continuing for the third quarter of 2026, and that the Canadian dollar will trade, on average, at C$1.41 per U.S. dollar for the full year 2026. Air Canada is assuming that the price of jet fuel will average at approximately C$1.38 per litre for the third quarter of 2026, and at approximately C$1.29 per litre for the fourth quarter of 2026. Air Canada's assumption is based on the forward curve as of July 29, 2026, adjusted to reflect Air Canada's specific supply chain environment, including Air Canada's fuel infrastructure at Canadian hubs, where fuel is typically contracted and received on a one- to two-month forward basis, as well as pricing exposure at international station locations. These jet fuel estimates reflect Air Canada's capacity plans and remain subject to ongoing volatility in global energy markets.

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. and a commercial agreement with PAL Airlines Ltd. (PAL), a wholly owned subsidiary of Exchange Income Corporation, operating flights on behalf of Air Canada under the Air Canada Express brand. Regional flying forms an integral part of the airline's international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes.

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

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

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

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

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

4. OVERVIEW

In the second quarter of 2026, Air Canada's operating revenues increased $634 million, or 11%, to $6,266 million when compared to the second quarter of 2025. The increase was mainly driven by higher passenger and cargo revenues. Total unit revenues grew 11% year over year, supported by healthy demand for passenger air travel and air cargo services and higher pricing year over year, partially in response to the surge in jet fuel prices earlier in the year.

Second quarter 2026 operated capacity increased 0.3% year over year, below our second quarter guidance range of 0.5% to 1% growth. This was primarily due to weather-related disruptions that negatively affected completion rates in the latter part of the quarter.

Operating expenses increased $1,267 million, or 24%, to $6,481 million when compared to the second quarter of 2025. The increase was mainly due to higher aircraft fuel expense, reflecting a 51% increase in fuel price per litre, as well as higher labour expenses and certain items totalling $388 million recorded in the second quarter of 2026. Of these charges, $360 million were recorded in wages, salaries and benefits and $28 million were recorded in other operating expenses. The increase also reflected higher expenses across several line items, including depreciation, amortization and impairment, airport and navigation fees, aircraft maintenance, sales and distribution costs and other operating expenses.

Conflict in the Middle East and Aircraft Fuel Prices

Geopolitical developments in the Middle East have resulted in operational disruptions in the region and in higher prices and volatility in global energy markets. Moreover, in the first six months of 2026 there was significant disruption to international shipping trade routes through the Strait of Hormuz, which further exacerbated the impact on fuel supply and prices, including for aircraft fuel. As a result, jet fuel prices increased 51% year over year in the second quarter of 2026, despite a $205 million gain on jet fuel hedging.

In response to the situation, Air Canada implemented actions to mitigate the impact on operations and elevated fuel prices including adjusting fares, fees and making selective capacity adjustments. Ongoing geopolitical instability in the region continues to affect jet fuel prices, and current or future conflicts may further impact fuel supply, prices, global energy markets and the aviation industry. Air Canada continues to monitor fuel price and supply developments and may take further actions, as appropriate, to manage its exposure.

The following is an overview of Air Canada's results of operations and financial position for the second quarter of 2026 compared to the same period in 2025. Refer to section 5 "Results of Operations" for additional information on factors impacting the year-over-year performance.

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 and its 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 customary 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.

Second Quarter 2026 Financial Summary

- Operating revenues increased $634 million, or 11%, to $6,266 million, reflecting growth in all revenue lines.
- Operating expenses increased $1,267 million, or 24%, to $6,481 million, mainly driven by higher aircraft fuel expense, labour expenses and $388 million in charges recorded in the second quarter of 2026 in salaries, wages and benefits and in other operating expenses.
- Operating loss was $215 million, compared to operating income of $418 million in the second quarter of 2025. Operating margin was negative 3.4%, a decrease of 10.8 percentage points.
- Adjusted EBITDA was $719 million, compared to $909 million in the second quarter of 2025. Adjusted EBITDA margin was 11.5%, a decrease of 4.6 percentage points.
- Loss before income taxes was $316 million, compared to income before taxes of $103 million in the second quarter of 2025.
- Adjusted pre-tax income was $77 million, compared to adjusted pre-tax income of $300 million in the second quarter of 2025.
- Net loss of $178 million and net loss per diluted share of $0.63, compared to net income of $186 million and diluted earnings per share of $0.51 in the second quarter of 2025.
- Adjusted net income of $114 million and adjusted earnings per diluted share of $0.40, compared to $207 million and $0.60, respectively, in the second quarter of 2025.
- Adjusted CASM increased 7.4% to 15.47 cents, reflecting higher non-fuel operating costs despite a modest capacity increase.
- Net cash flows from operating activities were $651 million, and free cash flow was $174 million, compared to $895 million and $183 million, respectively, in the second quarter of 2025.

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			
	2026	2025	$ Change	% Change (1)	2026	2025	$ Change	% Change (1)
Operating revenues								
Passenger	$ 5,576	$ 5,031	545	11	$ 10,368	$ 9,362	1,006	11
Cargo	325	253	72	29	584	503	81	16
Other	365	348	17	5	1,099	963	136	14
Total operating revenues	**6,266**	**5,632**	**634**	**11**	**12,051**	**10,828**	**1,223**	**11**
Operating expenses								
Aircraft fuel	1,713	1,148	565	49	2,907	2,334	573	25
Wages, salaries and benefits	1,740	1,247	493	40	2,993	2,386	607	25
Depreciation, amortization and impairment	546	491	55	11	1,052	986	66	7
Airport and navigation fees	446	407	39	10	836	764	72	9
Aircraft maintenance	364	341	23	7	721	674	47	7
Sales and distribution costs	293	275	18	7	586	540	46	9
Capacity purchase fees	232	219	13	6	465	439	26	6
Ground package costs	164	157	7	4	596	530	66	12
Information technology	143	151	(8)	(5)	330	343	(13)	(4)
Catering and onboard services	180	173	7	4	353	310	43	14
Other	660	605	55	9	1,310	1,212	98	8
Total operating expenses	**6,481**	**5,214**	**1,267**	**24**	**12,149**	**10,518**	**1,631**	**16**
Operating income (loss)	**(215)**	**418**	**(633)**		**(98)**	**310**	**(408)**	
Non-operating income (expense)								
Foreign exchange gain (loss)	(4)	(190)	186		99	(201)	300	
Interest income	58	59	(1)		114	134	(20)	
Interest expense	(158)	(168)	10		(317)	(346)	29	
Interest capitalized	23	13	10		33	26	7	
Financial instruments recorded at fair value	(6)	6	(12)		(3)	60	(63)	
Loss on debt settlements	-	-	-		(56)	-	(56)	
Gain on sale and leaseback of assets	36	-	36		82	-	82	
Other	(50)	(35)	(15)		(47)	(47)	-	
Total non-operating expense	**(101)**	**(315)**	**214**		**(95)**	**(374)**	**279**	
Income (loss) before income taxes	**(316)**	**103**	**(419)**		**(193)**	**(64)**	**(129)**	
Income tax recovery	138	83	55		63	148	(85)	
Net income (loss)	**$ (178)**	**$ 186**	**(364)**		**$ (130)**	**$ 84**	**$ (214)**	
Basic earnings (loss) per share	**$ (0.63)**	**$ 0.58**	**$ (1.21)**		**$ (0.45)**	**$ 0.26**	**$ (0.71)**	
Diluted earnings (loss) per share	**$ (0.63)**	**$ 0.51**	**$ (1.14)**		**$ (0.45)**	**$ 0.10**	**$ (0.55)**	
Adjusted EBITDA (2)	**$ 719**	**$ 909**	**$ (190)**		**$ 1,342**	**$ 1,296**	**$ 46**	
Adjusted pre-tax income (2)	**$ 77**	**$ 300**	**$ (223)**		**$ 95**	**$ 85**	**$ 10**	
Adjusted net income (2)	**$ 114**	**$ 207**	**$ (93)**		**$ 98**	**$ 57**	**$ 41**	
Adjusted earnings per share – diluted (2)	**$ 0.40**	**$ 0.60**	**$ (0.20)**		**$ 0.34**	**$ 0.16**	**$ 0.18**	

(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

Passenger revenues increased $545 million, or 11%, to $5,576 million in the second quarter of 2026 when compared to the second quarter of 2025. The increase was driven by higher traffic and improved yield, supported by continued demand across the network and higher pricing year over year. On a 0.3% increase in capacity, system passenger load factor increased 2.6 percentage points, and system yield increased 7.2%. These factors resulted in an 11% increase in unit passenger revenues or PRASM, when compared to the second quarter of 2025.

Following geopolitical developments in the Middle East, which resulted in operational disruptions and higher fuel prices, Air Canada implemented actions to mitigate the impact on its operations and elevated fuel costs, including fare, fee and selective capacity adjustments.

Revenues from premium cabins continued to perform well and increased 11% in the second quarter of 2026, representing about 30% of total passenger revenues.

Sixth freedom revenues grew 9% year over year, driven by revenue growth in the US-Atlantic and US-Pacific corridors primarily supported by strong traffic growth from U.S. to Europe.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2026	2025	$ Change	% Change [(1)]	2026	2025	$ Change	% Change [(1)]
Canada	$ 1,505	1,379	$ 126	9.2	$ 2,723	2,501	$ 222	8.9
U.S. transborder	1,075	961	114	11.8	2,045	1,952	93	4.7
Atlantic	1,821	1,644	177	10.8	2,895	2,583	312	12.1
Pacific	783	702	81	11.5	1,497	1,333	164	12.2
Other	392	345	47	13.6	1,208	993	215	21.7
System	**$ 5,576**	**5,031**	**$ 545**	**10.9**	**$ 10,368**	**9,362**	**$ 1,006**	**10.8**

(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 2026 versus Second Quarter 2025					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	9.2	(0.0)	2.8	2.4	6.3	9.3
U.S. transborder	11.8	(5.7)	0.2	4.9	11.6	18.5
Atlantic	10.8	(1.8)	1.9	3.3	8.7	12.9
Pacific	11.5	7.9	7.8	(0.1)	3.5	3.3
Other	13.6	6.8	8.5	1.3	4.7	6.3
System	**10.9**	**0.3**	**3.4**	**2.6**	**7.2**	**10.5**

	First Six Months 2026 versus First Six Months 2025					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	8.9	0.8	4.9	3.3	3.8	8.1
U.S. transborder	4.7	(8.2)	(2.9)	4.5	7.9	14.1
Atlantic	12.1	(1.5)	3.4	4.2	8.4	13.8
Pacific	12.2	6.9	8.5	1.3	3.4	4.9
Other	21.7	15.2	17.7	1.8	3.4	5.6
System	**10.8**	**1.3**	**5.4**	**3.4**	**5.1**	**9.3**

Domestic Passenger Revenues

Domestic revenues increased $126 million, or 9%, in the second quarter of 2026 when compared to the second quarter of 2025. The increase reflected a strong demand environment leading to a 2.4-percentage-point load factor increase on flat capacity, together with a 6% increase in yield year over year driven by higher fares in the domestic market.

For the first six months of 2026, domestic revenues increased $222 million, or 9%, when compared to the first six months of 2025. The increase reflected a 5% increase in traffic on a 0.8% increase in capacity, resulting in a 3.3 percentage point improvement in passenger load factor. Domestic yields increased 4% as a result of higher fares in the domestic market.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues increased $114 million, or 12%, in the second quarter of 2026 when compared to the second quarter of 2025. The increase was driven by a 12% year-over-year yield increase resulting from a combination of higher fares and lower capacity in the transborder market.

For the first six months of 2026, U.S. transborder passenger revenues increased $93 million, or 5%, when compared to the first six months of 2025. The increase reflected an 8% yield growth due to a combination of higher fares and lower capacity in the market, and a 4.5-percentage-point load factor increase year over year.

Travel demand between Canada and the U.S. remained stable, albeit below levels observed pre-February 2025. However, industry capacity reductions supported higher yields and load factors.

Atlantic Passenger Revenues

Atlantic passenger revenues increased $177 million, or 11%, in the second quarter of 2026 when compared to the second quarter of 2025. The increase reflected a 2% increase in traffic despite a 2% reduction in capacity, which drove a 3.3 percentage point improvement in passenger load factor. Yield increased 9% due to higher fares in the market.

For the first six months of 2026, Atlantic passenger revenues increased $312 million, or 12%, when compared to the first six months of 2025. The increase reflected a 3% increase in traffic on 2% less capacity, resulting in a 4.2 percentage point improvement in passenger load factor. It also reflected an 8% growth in yields due to higher fares.

Pacific Passenger Revenues

Pacific passenger revenues increased $81 million, or 12%, in the second quarter of 2026 when compared to the second quarter of 2025. The increase reflected an 8.0% increase in traffic, in line with an 8.0% increase in capacity, and a 4% yield increase due to higher fares and, in certain countries, higher fuel surcharges.

For the first six months of 2026, Pacific passenger revenues increased $164 million, or 12%, when compared to the first six months of 2025. The increase reflected a 9% increase in traffic on a 7% increase in capacity, as well as a 3% yield growth year over year.

Other Passenger Revenues

Other passenger revenues increased $47 million, or 14%, in the second quarter of 2026 when compared to the second quarter of 2025. The increase reflected a 9% increase in traffic on a 7% increase in capacity, resulting in a 1.3-percentage-point improvement in passenger load factor. Yield increased 5% due to higher fares in the market.

For the first six months of 2026, other passenger revenues increased $215 million, or 22%, when compared to the first six months of 2025. The increase reflected an 18% increase in traffic on a 15% increase in capacity, resulting in a 1.8-percentage-point improvement in passenger load factor.

Cargo Revenues

Cargo revenues increased $72 million, or 29%, to $325 million in the second quarter of 2026 when compared to the second quarter of 2025. For the first six months of 2026, cargo revenues increased $81 million, or 16%, to $584 million when compared to the first six months of 2025. The increases were primarily driven by higher cargo yields and favourable freight pricing conditions, particularly on international routes, in part, due to higher carrier surcharges.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2026	2025	$ Change	% Change (1)	2026	2025	$ Change	% Change (1)
Canada	$ 48	$ 27	$ 21	80.1	$ 87	$ 53	$ 34	65.0
U.S. transborder	13	14	(1)	(0.4)	26	29	(3)	(9.8)
Atlantic	106	89	17	18.6	194	178	16	8.6
Pacific	111	85	26	30.4	186	161	25	15.6
Other	47	38	9	23.3	91	82	9	11.6
System	**$ 325**	**$ 253**	**$ 72**	**28.7**	**$ 584**	**$ 503**	**$ 81**	**16.2**

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

Other Revenues

Other revenues increased $17 million, or 5%, to $365 million in the second quarter of 2026 and $136 million, or 14%, to $1,099 million in the first six months of 2026 when compared to the same periods of 2025. The increases were mainly due to higher Air Canada Vacations ground package revenues and non-air revenues related to the Aeroplan program.

Operating Expenses

Operating expenses increased $1,267 million, or 24%, to $6,481 million in the second quarter of 2026 when compared to the second quarter of 2025. The increase was mainly due to higher aircraft fuel and higher labour expenses, including certain items totalling $388 million, of which $360 million were recorded in wages, salaries and benefits and $28 million was recorded in other operating expenses. These items also included $152 million related to pension plan amendments and benefits-related past service costs, $208 million related to pensioner lump sum payments and voluntary separation packages following the completion of the agreement allowing proceeds from the sale of shares held in the union pension funding trust to be used for these purposes and a provision of $28 million, in respect of a legal matter. Air Canada also recognized $41 million of interest expense during the quarter related to the provision, which was recorded within other non-operating expense.

For the first six months of 2026, operating expenses increased $1,631 million, or 16%, to $12,149 million when compared to the first six months of 2025. The increase was mainly due to higher aircraft fuel and labour expenses. To a lesser extent, cost growth in various categories also contributed to the increase.

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

<u>Aircraft fuel</u>

Aircraft fuel expense increased $565 million, or 49%, to $1,713 million in the second quarter of 2026 when compared to the second quarter of 2025. The increase was primarily driven by a 51% increase in fuel price per litre, reflecting higher global jet fuel prices resulting from geopolitical developments in the Middle East and the associated disruption to international shipping routes and energy markets. Fuel consumption remained stable year over year, aligned with capacity. The impact of higher fuel prices was partially offset by jet fuel hedging gains of $205 million recorded during the quarter.

For the first six months of 2026, aircraft fuel expense increased $573 million, or 25%, to $2,907 million when compared to the first six months of 2025. The increase was primarily due to a 25% increase in aircraft fuel price per litre, as well as a

1% increase in fuel litres consumed. However, the impact on aircraft fuel expense for the first six months of 2026 was partially offset by jet fuel hedging gains of $243 million.

Wages, salaries and benefits

Wages, salaries and benefits expense increased $493 million, or 40%, to $1,740 million in the second quarter of 2026 when compared to the second quarter of 2025.

The increase reflected a total charge of $208 million consisting of a $167 million charge related to lump sum payments that will be made to pensioners and $41 million related to the voluntary separation packages for unionized employees, announced in June 2026. Both charges were recorded in the second quarter of 2026 following the completion of the agreement allowing proceeds from the sale of shares held in the union pension funding trust to be used for these purposes.

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.

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.

To a lesser extent, the increase also reflected higher wage rates and other compensation-related costs, partially offset by a modest decrease in average full-time equivalent employees.

For the first six months of 2026, wages, salaries and benefits expense increased by $607 million, or 25%, to $2,993 million when compared to the first six months of 2025. The increase was mainly due to higher wage rates and other compensation-related costs, as well as charges related to pension plan amendments, benefits-related past service costs, pensioner lump sum payments and voluntary separation packages recorded in the second quarter of 2026, as described above. The increase was partially offset by a modest decrease in average FTE employees.

Depreciation, amortization and impairment

Depreciation, amortization and impairment expense increased $55 million, or 11%, to $546 million in the second quarter of 2026 when compared to the second quarter of 2025, and increased $66 million, or 7%, to $1,052 million in the first six months of 2026 when compared to the first six months of 2025. The increases were mainly due to a higher asset base resulting from a greater number of aircraft deliveries and capitalized maintenance events.

Airport and navigation fees

Airport and navigation fees increased $39 million, or 10%, to $446 million in the second quarter of 2026 when compared to the second quarter of 2025, and increased $72 million, or 9%, to $836 million in the first six months of 2026 when compared to the first six months of 2025. The increases primarily reflect higher airport charges due to higher rates and greater passenger volumes year over year.

Aircraft maintenance

Aircraft maintenance expense increased $23 million, or 7%, to $364 million in the second quarter of 2026 when compared to the second quarter of 2025, and increased $47 million, or 7%, to $721 million in the first six months of 2026 when compared to the first six months of 2025. The increases were mainly due to higher maintenance activity, materials costs and an increase in maintenance provisions due to updated end-of-lease cost estimates related to leased aircraft.

Sales and distribution costs

Sales and distribution costs increased $18 million, or 7%, to $293 million in the second quarter of 2026, and increased $46 million, or 9%, to $586 million in the first six months of 2026, compared to the same periods in 2025, respectively. The increases were mainly driven by higher passenger volumes and, to a lesser extent, higher commissions associated with higher fares.

Other operating expenses

Other operating expenses increased $55 million, or 9%, to $660 million in the second quarter of 2026, and increased $98 million, or 8%, to $1,310 million in the first six months of 2026, compared to the same periods in 2025, respectively. The increases primarily reflected higher miscellaneous fees and services, crew cycle costs and building rent and maintenance. Included in miscellaneous fees and services was a provision of $28 million recorded in the second quarter of 2026 in connection with a legal matter.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2026	2025	$ Change	% Change [1]	2026	2025	$ Change	% Change [1]
Terminal handling	$ 147	$ 145	$ 2	1	$ 292	$ 280	$ 12	4
Crew cycle	98	86	12	14	183	165	18	11
Building rent and maintenance	85	76	9	12	182	155	27	17
Miscellaneous fees and services	95	78	17	22	155	139	16	12
Remaining other expenses	235	220	15	7	498	473	25	5
Total other expenses	**$ 660**	**$ 605**	**$ 55**	**9**	**$ 1,310**	**$ 1,212**	**$ 98**	**8**

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

CASM and Adjusted CASM

CASM increased 23.9% to 24.05 cents in the second quarter of 2026 when compared to the second quarter of 2025. The increase was mainly due to the increase in operating expenses, including higher aircraft fuel expense and labour costs, among others, on a 0.3% increase in capacity. For the first six months of 2026, CASM increased 14.0% to 23.47 cents when compared to the first six months of 2025. The increase was also mainly due to higher aircraft fuel expense and certain charges totalling $388 million recorded in the second quarter of 2026 as described above.

Adjusted CASM increased 7.4% to 15.47 cents in the second quarter of 2026 when compared to the second quarter of 2025. The increase reflected higher non-fuel operating costs, including labour expenses, aircraft maintenance, airport and navigation fees, and selling expenses. For the first six months of 2026, adjusted CASM increased 6.5% to 15.78 cents when compared to the first six months of 2025. The increase was mainly due to labour expenses, aircraft maintenance, and airport and navigation fees, partially offset by a modest increase in operated capacity.

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

(Cents per ASM)	Second Quarter				First Six Months			
	2026	2025	¢ Change	% Change [1]	2026	2025	¢ Change	% Change [1]
CASM	**¢ 24.05**	**¢ 19.41**	**¢ 4.64**	**23.9**	**¢ 23.47**	**¢ 20.58**	**¢ 2.89**	**14.0**
Remove:								
Aircraft fuel expense, ground package costs, freighter costs, pension plan share trust, pension plan amendments, benefits-related past service cost and provision for legal reserve	(8.58)	(5.01)	(3.57)	71.3	(7.69)	(5.77)	(1.92)	33.3
Adjusted CASM	**¢ 15.47**	**¢ 14.40**	**¢ 1.07**	**7.4**	**¢ 15.78**	**¢ 14.81**	**¢ 0.97**	**6.5**

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

Non-Operating Income (Expense)

Non-operating expense in the second quarter and first six months of 2026 totalled $101 million and $95 million, respectively, compared to non-operating expense of $315 million and $374 million in the second quarter of 2025 and first six months of 2025.

Foreign exchange resulted in a $4 million loss in the second quarter of 2026 and a gain of $99 million in the first six months of 2026. The variance primarily reflected movements in the Canadian dollar relative to the U.S. dollar during the quarter and year to date, including a loss of $170 million ($283 million for the first six months of 2026) from the unfavourable revaluation of U.S. dollar-denominated debt and lease liabilities, which was partially offset by a gain of $147 million ($379 million for the first six months of 2026) on foreign exchange derivatives. The June 30, 2026, closing exchange rate was US$1=$1.42 compared to US$1=$1.39 at March 31, 2026 and US$1=$1.37 at December 31, 2025.

Interest expense of $158 million and $317 million in the second quarter and first six months of 2026, decreased $10 million and $29 million, respectively, from the same periods in 2025. The declines were largely due to a combination of scheduled debt repayments and changes in average interest rates year over year. The decline was partially offset by higher interest payments on lease liabilities resulting from fleet additions in the last 12 months.

Air Canada recorded a gain of $36 million and $82 million in the second quarter and first six months of 2026, respectively, in relation to the completion of sale and leaseback transactions.

In the second quarter of 2026, Air Canada recorded a $41 million interest expense charge under other non-operating expenses related to the provision recorded under other operating expenses for a legal matter.

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, 2025	Year to date Changes	June 30, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
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	32	-	32	-	32	-	32
Boeing 787-10	-	-	-	2	2	6	8
Boeing 767-300 freighters	6	-	6	-	6	-	6
Airbus A330-300	20	-	20	-	20	-	20
Total wide-body aircraft	91	-	91	2	93	6	99
Narrow-body aircraft							
Boeing 737 MAX 8	47	(16)	31	(31)	-	-	-
Airbus A321XLR	-	2	2	7	9	10	19
Airbus A321	21	-	21	5	26	8	34
Airbus A320	22	(2)	20	2	22	(3)	19
Airbus A319	1	(1)	-	-	-	-	-
Airbus A220-300	41	5	46	11	57	8	65
Total narrow-body aircraft	132	(12)	120	(6)	114	23	137
Total Mainline	**223**	**(12)**	**211**	**(4)**	**207**	**29**	**236**

AIR CANADA rouge	Actual			Planned*			
	Dec. 31, 2025	Year to date Changes	June 30, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Narrow-body aircraft							
Boeing 737 MAX 8*	-	21	21	31	52	-	52
Airbus A321	13	-	13	(5)	8	(8)	-
Airbus A320	5	-	5	(5)	-	-	-
Airbus A319	15	(3)	12	(12)	-	-	-
Total Air Canada Rouge	**33**	**18**	**51**	**9**	**60**	**(8)**	**52**

Total Mainline & Rouge	**256**	**6**	**262**	**5**	**267**	**21**	**288**

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

Air Canada Express

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

AIR CANADA EXPRESS	Actual			Planned			
	Dec. 31, 2025	Year to date Changes	June 30, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-900	31	(2)	29	-	29	-	29
De Havilland Dash 8-400	41	-	41	-	41	-	41
Total Air Canada Express	**97**	**(2)**	**95**	**-**	**95**	**-**	**95**

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. Air Canada also evaluates its liquidity needs including the impact of its working capital position, as discussed in section 7.3 "Working Capital" of this MD&A. Notably, advance ticket sales and the current portion of Aeroplan and other deferred revenues are structural components of the working capital deficiency. These items represent sources of cash from operations that are recognized as revenues and therefore support Air Canada's ongoing liquidity.

At June 30, 2026, total liquidity was $8,910 million comprised of cash and cash equivalents, short-term and long-term investments of $7,524 million, and $1,386 million available under undrawn credit facilities. Cash and cash equivalents included $188 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 the periods indicated.

(Canadian dollars in millions)	June 30, 2026	December 31, 2025	Change	June 30, 2025
Total long-term debt and lease liabilities	$ 9,417	$ 8,609	$ 808	$ 10,247
Current portion of long-term debt and lease liabilities	3,377	2,967	410	1,547
Total long-term debt and lease liabilities (including current portion)	**12,794**	**11,576**	**1,218**	**11,794**
Less cash, cash equivalents and short and long-term investments	(7,524)	(6,165)	(1,359)	(7,037)
Net debt (1)	**$ 5,270**	**$ 5,411**	**$ (141)**	**$ 4,757**
Adjusted EBITDA (trailing 12 months)	**$ 3,170**	**$ 3,124**	**$ 46**	**$ 3,515**
Net debt to adjusted EBITDA ratio (1)	**1.7**	**1.7**	**-**	**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 1.7 at June 30, 2026, unchanged from December 31, 2025. Liquidity increased in the first six months of 2026, driven by net cash flows from operating activities of $2,449 million, partially offset by the use of $267 million for the purchase of shares for cancellation, as discussed in section 7.8 "Share Information" of this MD&A, and $671 million of net additions to property, equipment and intangible assets, as discussed in section 7.4 "Cash Flow Movements" of this MD&A. Total long-term debt and lease liabilities increased during the period, primarily due to additional borrowings used to support aircraft financing initiatives and the impact of a weaker Canadian dollar on the U.S. dollar-denominated debt and lease liabilities. Operating income for the trailing 12 months ended June 30, 2026 was $510 million, compared to $1,096 million in the corresponding period of 2025.

In the second quarter of 2026, Air Canada completed sale and leaseback transactions for total proceeds of $218 million, for a total of $501 million in the first six months of 2026.

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.

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.

7.3. WORKING CAPITAL

The table below provides information on Air Canada's working capital balances as at June 30, 2026, and December 31, 2025.

(Canadian dollars in millions)	June 30, 2026	December 31, 2025	Change
Cash, cash equivalents and short-term investments	$ 7,011	$ 5,525	$ 1,486
Accounts receivable	1,416	1,292	124
Other current assets	1,171	1,099	72
Total current assets	**$ 9,598**	**$ 7,916**	**$ 1,682**
Accounts payable and accrued liabilities	4,719	4,513	206
Advance ticket sales	6,069	4,814	1,255
Aeroplan and other deferred revenues	1,798	1,840	(42)
Current portion of long-term debt and lease liabilities	3,377	2,967	410
Total current liabilities	**$ 15,963**	**$ 14,134**	**$ 1,829**
Net working capital	**$ (6,365)**	**$ (6,218)**	**$ (147)**

Net working capital deficiency increased by $147 million to $6,365 million at June 30, 2026 from December 31, 2025. Total current assets increased in the first six months of 2026 mainly due to higher cash and cash equivalents resulting from the increase in advance ticket sales. The net working capital deficiency increased due to an increase in the current portion of long-term debt reflecting higher debt repayments due over the next 12 months.

In the second quarter of 2026, Air Canada completed sale and leaseback transactions for total proceeds of $218 million, for a total of $501 million in the first six months of 2026.

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)	2026	2025	$ Change	2026	2025	$ Change
Net cash flows from operating activities	$ 651	$ 895	$ (244)	$ 2,449	$ 2,421	$ 28
Net cash flows used in financing activities	(136)	(1,147)	1,011	(502)	(1,708)	1,206
Net cash flows from (used in) investing activities	(91)	241	(332)	(275)	104	(379)
Effect of exchange rate changes on cash and cash equivalents	39	(14)	53	50	1	49
Increase (decrease) in cash and cash equivalents	**$ 463**	**$ (25)**	**$ 488**	**$ 1,722**	**$ 818**	**$ 904**

Net Cash Flows from Operating Activities

Net cash flows from operating activities were $651 million in the second quarter of 2026, a decrease of $244 million from the same period in 2025, primarily due to the year-over-year decline in results from operations. For the first six months of 2026, net cash flows from operating activities were $2,449 million, an increase of $28 million from the prior year.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities were $136 million in the second quarter of 2026 and $502 million in the first six months of 2026. The year-over-year decreases of $1,011 million and $1,206 million, respectively, primarily reflected higher proceeds from borrowings, lower debt repayments and lower share repurchases.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities were $91 million in the second quarter of 2026 and $275 million in the first six months of 2026. These represented year-over-year decreases of $332 million and $379 million, respectively, primarily reflecting lower net proceeds from the disposal of short- and long-term investments, partially offset by proceeds from sale and leaseback transactions, as described in section 7.2 “Net Debt” of this MD&A, and lower capital expenditures.

Free Cash Flow

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

	Second Quarter			First Six Months		
(Canadian dollars in millions)	2026	2025	$ Change	2026	2025	$ Change
Net cash flows from operating activities	**$ 651**	**$ 895**	**$ (244)**	**$ 2,449**	**$ 2,421**	**$ 28**
Additions to property, equipment, and intangible assets	(695)	(712)	17	(1,172)	(1,407)	235
Proceeds from sale and leaseback of assets	218	-	218	501	-	501
Free cash flow (1)	**$ 174**	**$ 183**	**$ (9)**	**$ 1,778**	**$ 1,014**	**$ 764**

(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.

Free cash flow was $174 million in the second quarter of 2026 and $1,778 million in the first six months of 2026. The $9 million decrease in the quarter primarily reflected lower adjusted EBITDA and higher capital expenditures, largely offset by proceeds from sale and leaseback transactions. The $764 million increase for the first six months primarily reflected proceeds from sale and leaseback transactions, lower capital expenditures and higher adjusted EBITDA.

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). The first two aircraft were delivered in the second quarter of 2026, the final aircraft is scheduled for delivery 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, 46 were delivered as at June 30, 2026. Deliveries for the 19 remaining firm orders are planned to continue into 2027.

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 Term CORRA plus a margin of 1.72%. Financing for up to 16 A220 aircraft and US$596 million remain available under this facility.

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.

Boeing 787-10 Aircraft

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

Airbus A350-1000 Aircraft

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

Heart Aerospace ES-30 Electric Aircraft

In 2022, Air Canada entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. The purchase remains subject to conditions including in relation to the design and specifications of the aircraft. In addition, the final cost for the aircraft, which is subject to a price cap, is not yet determinable and is not included in the table below. These aircraft would not be expected to start entry into service before at least 2031.

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, 2026 amounted to $12,693 million.

	Remainder of 2026	2027	2028	2029	2030	Thereafter	Total
Committed expenditures	$ 1,852	$ 3,022	$ 1,730	$ 1,511	$ 1,331	$ 3,247	$ 12,693
Projected planned but uncommitted expenditures	275	574	777	764	921	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	328	770	812	886	796	Not available	Not available
Total projected expenditures (2)	**$ 2,455**	**$ 4,366**	**$ 3,319**	**$ 3,161**	**$ 3,048**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2029 and beyond are not yet determinable, however estimates of $886 million and $796 million have been made for 2029 and 2030, respectively.

(2) U.S. dollar amounts are converted using the June 30, 2026 closing exchange rate of US$1=C$1.42. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

In the fourth quarter of 2025, Air Canada entered into non-binding letter agreements for up to $2 billion in sale and leaseback transactions expected to close in 2026 and 2027, subject to the execution of definitive and binding agreements and completion of standard conditions precedent. The commitments table presented above does not reflect these transactions. In the second quarter of 2026, Air Canada completed a part of such sale and leaseback transactions for total proceeds of $218 million reaching a total of $501 million in the first six months of 2026.

7.6. PENSION FUNDING OBLIGATIONS

At January 1, 2026, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $5.0 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.

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. 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.

Air Canada's pension funding obligations are discussed in section 8.6 "Pension Funding Obligations" of its 2025 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

Domestic Registered Pension Plan Assets

As described in Note 9 of 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 discussed above. 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.

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

7.7. CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at June 30, 2026, 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 2026	2027	2028	2029	2030	Thereafter	Total
Principal							
Long-term debt [(1)]	$ 1,989	$ 1,124	$ 1,417	$ 2,348	$ 490	$ 2,160	$ 9,528
Lease liabilities	362	486	432	342	325	1,428	3,375
Total principal obligations	**$ 2,351**	**$ 1,610**	**$ 1,849**	**$ 2,690**	**$ 815**	**$ 3,588**	**$ 12,903**
Interest							
Long-term debt	$ 195	311	251	233	123	89	$ 1,202
Lease liabilities	91	156	131	107	87	366	938
Total interest obligations	**$ 286**	**$ 467**	**$ 382**	**$ 340**	**$ 210**	**$ 455**	**$ 2,140**
Total long-term debt and lease liabilities	**$ 2,637**	**$ 2,077**	**$ 2,231**	**$ 3,030**	**$ 1,025**	**$ 4,043**	**$ 15,043**
Committed capital expenditures	**$ 1,852**	**$ 3,022**	**$ 1,730**	**$ 1,511**	**$ 1,331**	**$ 3,247**	**$ 12,693**
Total contractual obligations [(2)]	**$ 4,489**	**$ 5,099**	**$ 3,961**	**$ 4,541**	**$ 2,356**	**$ 7,290**	**$ 27,736**

(1) The full principal balance of $1,273 million for the unsecured credit facility expiring in 2028, is 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, 2026	December 31, 2025
Issued and outstanding shares		
Class A variable voting shares	81,524,602	66,330,053
Class B voting shares	198,534,397	228,219,567
Total issued and outstanding shares	**280,058,999**	**294,549,620**
Class A variable voting and Class B voting shares potentially issuable		
Stock options	13,131,444	12,137,096
Total shares potentially issuable	**13,131,444**	**12,137,096**
Total outstanding and potentially issuable shares	**293,190,443**	**306,686,716**

Normal Course Issuer Bid

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 first six months of 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 normal course issuer bid.

8. QUARTERLY FINANCIAL DATA

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

(Canadian dollars in millions, except per share figures)	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Operating revenues	$ 6,106	$ 5,404	$ 5,196	$ 5,632	$ 5,774	$ 5,770	$ 5,785	$ 6,266
Operating expenses	5,066	5,658	5,304	5,214	5,490	5,446	5,668	6,481
Operating income (loss)	**1,040**	**(254)**	**(108)**	**418**	**284**	**324**	**117**	**(215)**
Non-operating income (expense)	**(143)**	**(467)**	**(59)**	**(315)**	**227**	**18**	**6**	**(101)**
Income (loss) before income taxes	**897**	**(721)**	**(167)**	**103**	**511**	**342**	**123**	**(316)**
Income tax recovery (expense)	1,138	77	65	83	(247)	(46)	(75)	138
Net income (loss)	**$ 2,035**	**$ (644)**	**$ (102)**	**$ 186**	**$ 264**	**$ 296**	**$ 48**	**$ (178)**
Basic earnings (loss) per share	**$ 5.68**	**$ (1.81)**	**$ (0.31)**	**$ 0.58**	**$ 0.89**	**$ 1.00**	**$ 0.16**	**$ (0.63)**
Diluted earnings (loss) per share	**$ 5.38**	**$ (1.81)**	**$ (0.40)**	**$ 0.51**	**$ 0.88**	**$ 1.00**	**$ 0.16**	**$ (0.63)**
Adjusted EBITDA [(1)]	**$ 1,523**	**$ 696**	**$ 387**	**$ 909**	**$ 961**	**$ 867**	**$ 623**	**$ 719**
Adjusted pre-tax income (loss) [(1)]	**$ 985**	**$ 135**	**$ (215)**	**$ 300**	**$ 329**	**$ 244**	**$ 18**	**$ 77**
Adjusted net income (loss) [(1)]	**$ 969**	**$ 93**	**$ (150)**	**$ 207**	**$ 223**	**$ 191**	**$ (16)**	**$ 114**
Adjusted earnings (loss) per share – diluted [(1)]	**$ 2.57**	**$ 0.25**	**$ (0.45)**	**$ 0.60**	**$ 0.75**	**$ 0.65**	**$ (0.05)**	**$ 0.40**

(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 2025 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 9 of Air Canada's interim unaudited condensed consolidated financial statements for the second quarter of 2026.

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 first six months of 2026; $19 million gain for the three- and six-month periods ended June 30, 2025). 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.

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 first six months of 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 first six months of 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).

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2025 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2025 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Air Canada adopted the amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures which became effective for annual reporting periods beginning on or after January 1, 2026. There was no material impact to Air Canada's consolidated statement of financial position as of January 1, 2026 adoption.

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 2026 including information on accounting standard IFRS 18 Presentation and Disclosure in Financial Statements which 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 for 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.

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 2025 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 2025 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, 2026, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements and sponsorship and management services for a number of post-retirement plans which are related parties. Refer to Notes 9 and 21 of Air Canada's audited consolidated financial statements and notes for 2025, for additional information on these plans.

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 2025 MD&A. Also refer to section 4 "Overview – Conflict in the Middle East and aircraft fuel prices" of this MD&A for an update on the impact of the conflict on the supply and cost of aircraft fuel. There have been no material changes to Air Canada's risk factors from what was disclosed in the 2025 MD&A.

15. CONTROLS AND PROCEDURES

Air Canada's controls and procedures are summarized in section 19 "Controls and Procedures" of Air Canada's 2025 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: being highly variable, difficult to project, unusual in nature, significant to the results of a particular period or not indicative of past or future operating results. These items are excluded because Air Canada believes these may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's operating expense performance and may allow for a more meaningful comparison to other airlines.

In the second quarter of 2026, Air Canada concluded a four-year collective agreement with Unifor and recorded a pension past service cost of $132 million for pension plan amendments in relation to this agreement. Air Canada also recorded a $208 million charge related to pensioner lump sum payments and voluntary separation packages following the completion, in April 2026, of this agreement, allowing proceeds from the sale of shares held in the union pension funding trust to be used for these purposes. Air Canada also recorded a $20 million benefit-related past service cost and a $28 million provision in respect of a legal matter. These items were excluded in the calculation of adjusted CASM, adjusted EBITDA, adjusted pre-tax income and adjusted net income.

Additionally, a related $41 million interest expense associated with a legal matter was excluded from adjusted pre-tax income and adjusted net income.

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

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

Air Canada excludes the effect of impairment of assets, if any, when calculating adjusted CASM, adjusted EBITDA, adjusted EBITDA margin, adjusted pre-tax income (loss) and adjusted net income (loss) as it may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful. Air Canada did not record charges for impairment of assets in 2026, 2025 or 2024.

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. 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, 2026 and as at June 30, 2025. 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		
	2026	2025	Change	2026	2025	Change
Operating expense – GAAP	**$ 6,481**	**$ 5,214**	**$ 1,267**	**$ 12,149**	**$ 10,518**	**$ 1,631**
Adjusted for:						
Aircraft fuel	(1,713)	(1,148)	(565)	(2,907)	(2,334)	(573)
Ground package costs	(164)	(157)	(7)	(596)	(530)	(66)
Freighter costs (excluding fuel)	(49)	(42)	(7)	(91)	(84)	(7)
Pension plan share trust	(208)	-	(208)	(208)	-	(208)
Pension plan amendments	(132)	-	(132)	(132)	-	(132)
Benefits-related past service cost	(20)	-	(20)	(20)	-	(20)
Provision for legal reserve	(28)	-	(28)	(28)	-	(28)
Operating expense, adjusted for the above-noted items	**$ 4,167**	**$ 3,867**	**$ 300**	**$ 8,167**	**7,570**	**597**
ASMs (millions)	**26,942**	**26,860**	**0.3%**	**51,771**	**51,100**	**1.3%**
Adjusted CASM (cents)	**¢ 15.47**	**¢ 14.40**	**¢ 1.07**	**¢ 15.78**	**¢ 14.81**	**¢ 0.97**

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 and amortization and impairment and other items. 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		
	2026	2025	Change	2026	2025	Change
Operating income (loss) – GAAP	**$ (215)**	**$ 418**	**$ (633)**	**$ (98)**	**$ 310**	**$ (408)**
Add back:						
Depreciation, amortization and impairment	546	491	55	1,052	986	66
Pension plan share trust	208	-	208	208	-	208
Pension plan amendments	132	-	132	132	-	132
Benefits-related past service cost	20	-	20	20	-	20
Provision for legal reserve	28	-	28	28	-	28
Adjusted EBITDA	**$ 719**	**$ 909**	**$ (190)**	**$ 1,342**	**$ 1,296**	**$ 46**
Operating revenues	**$ 6,266**	**$ 5,632**	**$ 634**	**$ 12,051**	**$ 10,828**	**$ 1,223**
Operating margin (%)	**(3.4)**	**7.4**	**(10.8) pp**	**(0.8)**	**2.9**	**(3.7) pp**
Adjusted EBITDA margin (%)	**11.5**	**16.1**	**(4.6) pp**	**11.1**	**12.0**	**(0.9) pp**

(Canadian dollars in millions)	Twelve-months ended June 30, 2026	December 31, 2025	June 30, 2025
Operating income – GAAP	**$ 510**	**$ 918**	**$ 1,096**
Add back:			
Depreciation, amortization and impairment	2,078	2,012	1,895
Provision for contractual lease obligations	-	-	34
Pension plan share trust	208	-	-
Pension plan amendments and other labour-related charges	326	194	490
Benefits-related past service cost	20	-	-
Provision for legal reserve	28	-	-
Adjusted EBITDA	**$ 3,170**	**$ 3,124**	**$ 3,515**

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. These items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

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

	Second Quarter			First Six Months		
(Canadian dollars in millions)	2026	2025	Change	2026	2025	Change
Income (loss) before income taxes – GAAP	**$ (316)**	**$ 103**	**$ (419)**	**$ (193)**	**$ (64)**	**$ (129)**
Adjusted for:						
Foreign exchange (gain) loss	4	190	(186)	(99)	201	(300)
Net interest relating to employee benefits	(10)	(5)	(5)	(19)	(10)	(9)
(Gain) loss on financial instruments recorded at fair value	6	(6)	12	3	(60)	63
Loss on debt settlements	-	-	-	56	-	56
Gain on sale and leaseback of assets	(36)	-	(36)	(82)	-	(82)
Other corporate expenses	-	18	(18)	-	18	(18)
Pension plan share trust	208	-	208	208	-	208
Pension plan amendments	132	-	132	132	-	132
Benefits-related past service cost	20	-	20	20	-	20
Provision for legal reserve, including interest expense	69	-	69	69	-	69
Adjusted pre-tax income	**$ 77**	**$ 300**	**$ (223)**	**$ 95**	**$ 85**	**$ 10**

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. These items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

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		
	2026	2025	Change	2026	2025	Change
Net income (loss) – GAAP	**$ (178)**	**$ 186**	**$ (364)**	**$ (130)**	**$ 84**	**$ (214)**
Adjusted for:						
Foreign exchange (gain) loss	4	190	(186)	(99)	201	(300)
Net interest relating to employee benefits	(10)	(5)	(5)	(19)	(10)	(9)
(Gain) loss on financial instruments recorded at fair value	6	(6)	12	3	(60)	63
Loss on debt settlements	-	-	-	56	-	56
Gain on sale and leaseback of assets	(36)	-	(36)	(82)	-	(82)
Other corporate expenses	-	18	(18)	-	18	(18)
Pension plan share trust	208	-	208	208	-	208
Pension plan amendments	132	-	132	132	-	132
Benefit related past service cost	20	-	20	20	-	20
Provision for legal reserve, including interest	69	-	69	69	-	69
Income tax, including for the above reconciling items	(101)	(176)	75	(60)	(176)	116
Adjusted net income	**$ 114**	**$ 207**	**$ (93)**	**$ 98**	**$ 57**	**$ 41**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	284	341	(57)	289	344	(56)
Adjusted earnings per share – diluted	**$ 0.40**	**$ 0.60**	**$ (0.20)**	**$ 0.34**	**$ 0.16**	**$ 0.18**

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

(In millions)	Second Quarter		First Six Months	
	2026	2025	2026	2025
Weighted average number of shares outstanding – basic	**283**	**323**	**288**	**326**
Effect of dilution	1	18	1	18
Weighted average number of shares outstanding – diluted	**284**	**341**	**289**	**344**

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

Adjusted EBITDA – Refers to earnings before interest, taxes, depreciation and amortization. When calculating adjusted EBITDA, Air Canada excludes impairment of assets, if any. Adjusted EBITDA is a non-GAAP financial measure, refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

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

Adjusted pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets and impairment of assets, if any. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of 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 passengers 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.