

Third Quarter 2026

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

October 29, 2026

AIR CANADA

A STAR ALLIANCE MEMBER

TABLE OF CONTENTS

1. SELECTED FINANCIAL METRICS AND STATISTICS 1
2. INTRODUCTION AND KEY ASSUMPTIONS 3
3. ABOUT AIR CANADA 5
4. OVERVIEW 6
5. RESULTS OF OPERATIONS 8
6. FLEET 15
7. FINANCIAL AND CAPITAL MANAGEMENT 17
   - 7.1. LIQUIDITY 17
   - 7.2. NET DEBT 18
   - 7.3. WORKING CAPITAL 19
   - 7.4. CASH FLOW MOVEMENTS 20
   - 7.5. CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS 22
   - 7.6. PENSION FUNDING OBLIGATIONS 24
   - 7.7. CONTRACTUAL OBLIGATIONS 25
   - 7.8. SHARE INFORMATION 26
8. QUARTERLY FINANCIAL DATA 27
9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT 28
10. ACCOUNTING POLICIES 28
11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 29
12. OFF-BALANCE SHEET ARRANGEMENTS 29
13. RELATED PARTY TRANSACTIONS 29
14. RISK FACTORS 29
15. CONTROLS AND PROCEDURES 30
16. NON-GAAP FINANCIAL MEASURES 30
17. GLOSSARY 36

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)	Third Quarter			First Nine Months		
Financial Performance Metrics	**2026**	**2025**	**$ Change**	**2026**	**2025**	**$ Change**
Operating revenues	6,984	5,774	1,210	19,035	16,602	2,433
Operating income	261	284	(23)	163	594	(431)
Operating margin [1] (%)	3.7	4.9	(1.2) pp [8]	0.9	3.6	(2.7) pp
Adjusted EBITDA [2]	936	961	(25)	2,278	2,257	21
Adjusted EBITDA margin [2] (%)	13.4	16.6	(3.2) pp	12.0	13.6	(1.6) pp
Income before income taxes	248	511	(263)	55	447	(392)
Net income for the period	146	264	(118)	16	348	(332)
Net income attributable to shareholders of Air Canada	139	264	(125)	9	348	(339)
Adjusted pre-tax income [2]	328	329	(1)	423	414	9
Adjusted net income attributable to shareholders of Air Canada [2]	214	223	(9)	312	280	32
Total liquidity [3]	8,018	8,296	(278)	8,018	8,296	(278)
Net cash flows from operating activities	266	813	(547)	2,715	3,234	(519)
Free cash flow [2]	(440)	211	(651)	1,338	1,225	113
Net debt [2]	4,219	4,830	(611)	4,219	4,830	(611)
Long-term debt and lease liabilities	10,853	11,769	(916)	10,853	11,769	(916)
Diluted earnings per share – attributable to shareholders of Air Canada	0.49	0.88	(0.39)	0.03	0.90	(0.87)
Adjusted earnings per share attributable to shareholders of Air Canada – diluted [2]	0.75	0.75	-	1.08	0.85	0.23
Operating Statistics [4]	**2026**	**2025**	**Change %**	**2026**	**2025**	**Change %**
Revenue passenger miles (RPMs) (millions)	26,642	24,459	8.9	71,612	67,142	6.7
Available seat miles (ASMs) (millions)	29,893	28,282	5.7	81,664	79,382	2.9
Passenger load factor %	89.1%	86.5%	2.6 pp	87.7%	84.6%	3.1 pp
Passenger revenue per RPM (Yield) (cents)	23.8	21.4	11.0	23.3	21.8	7.3
Passenger revenue per ASM (PRASM) (cents)	21.2	18.5	14.4	20.5	18.4	11.2
Operating revenue per ASM (TRASM) (cents)	23.4	20.4	14.4	23.3	20.9	11.5
Operating expense per ASM (CASM) (cents)	22.5	19.4	15.9	23.1	20.2	14.6
Adjusted CASM (cents) [2]	14.5	14.0	3.3	15.3	14.5	5.3
Average number of full-time-equivalent (FTE) employees (thousands) [5]	37.3	37.0	0.8	36.7	37.2	(1.1)
Aircraft in operating fleet at period-end	358	366	(2.2)	358	366	(2.2)
Seats dispatched (thousands)	15,940	15,095	5.6	43,989	42,912	2.5
Aircraft frequencies (thousands)	108.1	102.8	5.2	300.5	292.7	2.7
Average stage length (miles) [6]	1,875	1,874	0.1	1,856	1,850	0.4
Fuel cost per litre (cents)	148.3	88.3	68.0	127.5	91.3	39.7
Fuel litres (thousands)	1,417,835	1,356,485	4.5	3,896,979	3,819,892	2.0
Revenue passengers carried (thousands) [7]	13,338	12,168	9.6	36,330	34,102	6.5

(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 September 30, 2026, of $8,018 million, consisted of $6,634 million in cash, cash equivalents, and short- and long-term investments, and $1,384 million available under undrawn credit facilities. As at September 30, 2025, total liquidity of $8,296 million consisted of $6,939 million in cash, cash equivalents, short- and long-term investments and $1,357 million available under undrawn credit facilities. These amounts also include funds ($333 million as at September 30, 2026 and $278 million as at September 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 third 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 third quarter of 2026 dated October 29, 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 October 29, 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 and expectations to meet liquidity needs over the next 12 months. 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 modest Canadian GDP growth for 2026, current demand trends continuing for the fourth quarter of 2026, and that the Canadian dollar will trade, on average, at C$1.39 per U.S. dollar (previously 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$1.72 per litre for the fourth quarter of 2026 (previously C$1.29 per litre). Air Canada's assumption is based on the forward curve as of October 8, 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 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 third quarter of 2026, Air Canada's operating revenues increased $1,210 million, or 21%, to $6,984 million when compared to the third quarter of 2025. The increase was mainly driven by higher passenger and cargo revenues. Total unit revenues increased 14% year over year, supported by healthy demand for passenger air travel and air cargo services, higher average ticket prices and improved passenger load factors across the network. On a 5.7% year-over-year capacity increase in the third quarter of 2026, passenger revenues increased 21%, reflecting an 11% increase in yield and a 2.6 percentage-point gain in load factor.

Operating expenses increased $1,233 million, or 22%, to $6,723 million when compared to the third quarter of 2025. The increase was mainly due to higher aircraft fuel expense, reflecting a 68% increase in fuel price per litre and 5% more litres used due to increased flying activity. To a lesser extent, higher expenses in labour and depreciation, amortization and impairment, among other cost lines, also contributed to the increase. Higher aircraft fuel expense remained the most significant factor affecting year-over-year profitability in the third quarter of 2026. Third quarter 2026 operating income was $261 million compared to $284 million in the third quarter of 2025.

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, since late February 2026 there has been a significant disruption to international shipping trade routes through the Strait of Hormuz, which has further exacerbated the impact on fuel supply and prices, including for aircraft fuel. As a result, jet fuel prices increased 68% year over year in the third quarter of 2026, despite $22 million in gains from jet fuel hedging. Overall, Air Canada recovered approximately 46% of the incremental fuel expense in the third quarter of 2026, below its expectation of 60%, primarily due to the significant increase in jet fuel prices in September 2026.

In response to the situation, Air Canada implemented actions to mitigate the impact on operations and elevated fuel prices including adjusting fares and 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.

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, made a $2.5 billion minority equity investment in Aeroplan Inc. Under the transaction terms, the investor group acquired a 25% non-controlling equity interest in Aeroplan. Air Canada retained a 75% ownership interest and continues to control Aeroplan and its operations, strategic direction and day-to-day management. The transaction closed on August 17, 2026.

Air Canada continues to consolidate Aeroplan in its consolidated financial statements and this minority equity investment is reflected as a non-controlling interest within total equity, presented separately from equity attributable to shareholders of Air Canada. This investment includes minority investor rights.

The investor group will be entitled to participate in distributions from Aeroplan, subject to approval by its board of directors and an agreed distribution policy. Under this policy, Aeroplan will make quarterly pro rata distributions of available cash to the investor group.

Air Canada will also have the option 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 investor group with an internal rate of return of 6.5%, calculated net of all distributions.

The following is an overview of Air Canada's results of operations and financial position for the third 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.

Third Quarter 2026 Financial Summary

- Operating revenues increased $1,210 million, or 21%, to $6,984 million, reflecting growth in passenger, cargo and other revenues.
- Operating expenses increased $1,233 million, or 22%, to $6,723 million, mainly driven by higher aircraft fuel and labour expenses.
- Operating income was $261 million, compared to $284 million in the third quarter of 2025. Operating margin was 3.7%, a decrease of 1.2 percentage points.
- Adjusted EBITDA was $936 million, compared to $961 million in the third quarter of 2025. Adjusted EBITDA margin was 13.4%, a decrease of 3.2 percentage points.
- Income before income taxes was $248 million, compared to income before income taxes of $511 million in the third quarter of 2025.
- Adjusted pre-tax income was $328 million, compared to $329 million in the third quarter of 2025.
- Net income attributable to Air Canada shareholders of $139 million and diluted earnings per share of $0.49, compared to net income of $264 million and diluted earnings per share of $0.88 in the third quarter of 2025.
- Adjusted net income attributable to shareholders of Air Canada of $214 million and adjusted diluted earnings per share attributable to shareholders of Air Canada of $0.75, compared to $223 million and $0.75, respectively, in the third quarter of 2025.
- Adjusted CASM increased 3.3% to 14.45 cents, reflecting higher non-fuel operating costs, partially offset by higher operated capacity year over year.
- Net cash flows from operating activities were $266 million, and free cash flow was negative $440 million, compared to $813 million and $211 million, respectively, in the third 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)	Third Quarter				First Nine Months			
	2026	2025	$ Change	% Change [1]	2026	2025	$ Change	% Change [1]
Operating revenues								
Passenger	$ 6,343	$ 5,244	$ 1,099	21	$ 16,711	$ 14,606	$ 2,105	14
Cargo	317	239	78	33	901	742	159	21
Other	324	291	33	11	1,423	1,254	169	13
Total operating revenues	**6,984**	**5,774**	**1,210**	**21**	**19,035**	**16,602**	**2,433**	**15**
Operating expenses								
Aircraft fuel	2,118	1,212	906	75	5,025	3,546	1,479	42
Wages, salaries and benefits	1,476	1,364	112	8	4,469	3,750	719	19
Depreciation, amortization and impairment	555	504	51	10	1,607	1,490	117	8
Airport and navigation fees	462	433	29	7	1,298	1,197	101	8
Aircraft maintenance	368	332	36	11	1,089	1,006	83	8
Sales and distribution costs	314	274	40	15	900	814	86	11
Capacity purchase fees	243	216	27	13	708	655	53	8
Ground package costs	114	103	11	11	710	633	77	12
Information technology	171	157	14	9	501	500	1	0
Catering and onboard services	208	178	30	17	561	488	73	15
Other	694	717	(23)	(3)	2,004	1,929	75	4
Total operating expenses	**6,723**	**5,490**	**1,233**	**22**	**18,872**	**16,008**	**2,864**	**18**
Operating income	**261**	**284**	**(23)**		**163**	**594**	**(431)**	
Non-operating income (expense)								
Foreign exchange gain	43	343	(300)		142	142	-	
Interest income	73	40	33		187	174	13	
Interest expense	(149)	(162)	13		(466)	(508)	42	
Interest capitalized	16	10	6		49	36	13	
Financial instruments recorded at fair value	(13)	16	(29)		(16)	76	(92)	
Loss on debt settlements	-	-	-		(56)	-	(56)	
Gain on sale and leaseback of assets	-	-	-		82	-	82	
Other	17	(20)	37		(30)	(67)	37	
Total non-operating income (expense)	**(13)**	**227**	**(240)**		**(108)**	**(147)**	**39**	
Income before income taxes	**248**	**511**	**(263)**		**55**	**447**	**(392)**	
Income tax (expense)	(102)	(247)	145		(39)	(99)	60	
Net income for the period	**$ 146**	**$ 264**	**$ (118)**		**$ 16**	**$ 348**	**$ (332)**	
Net income attributable to								
Shareholders of Air Canada	139	264	(125)		9	**348**	(339)	
Non-controlling interests	7	-	7		7	**-**	7	
Net income for the period	**146**	**264**	**(118)**		**16**	**348**	**(332)**	
Net income attributable to shareholders of Air Canada								
Basic earnings per share	$ 0.49	$ 0.89	$ (0.40)		$ 0.03	$ 1.10	$ (1.07)	
Diluted earnings per share	$ 0.49	$ 0.88	$ (0.39)		$ 0.03	$ 0.90	$ (0.87)	
Adjusted EBITDA [2]	**$ 936**	**$ 961**	**$ (25)**		**$ 2,278**	**$ 2,257**	**$ 21**	
Adjusted pre-tax income [2]	**$ 328**	**$ 329**	**$ (1)**		**$ 423**	**$ 414**	**$ 9**	
Adjusted net income attributable to shareholders of Air Canada [2]	**$ 214**	**$ 223**	**$ (9)**		**$ 312**	**$ 280**	**$ 32**	
Adjusted earnings per share attributable to shareholders of Air Canada – diluted [2]	**$ 0.75**	**$ 0.75**	**$ -**		**$ 1.08**	**$ 0.85**	**$ 0.23**	

(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 $1,099 million, or 21%, to $6,343 million in the third quarter of 2026. On a 5.7% increase in capacity, traffic grew 8.9%, resulting in a 2.6 percentage-point improvement in passenger load factor. Supported by healthy demand and strong pricing across the network, yield increased 11.0% year over year. The combination of higher yield and passenger load factor resulted in a 14.4% increase in passenger revenues per ASM.

For the first nine months of 2026, passenger revenues increased $2,105 million, or 14%, to $16,711 million. On a 2.9% increase in capacity, traffic grew 6.7%, resulting in a 3.1 percentage-point improvement in passenger load factor. Yield increased 7.3% year over year, supported by healthy demand and strong pricing across the network. The combination of higher yield and passenger load factor resulted in an 11.2% increase in passenger revenues per ASM. Yield growth in both periods also reflected, in part, fare actions implemented to offset higher fuel costs.

Year-over-year comparisons for both periods were affected by the labour disruption in the third quarter of 2025. Accordingly, the reported increases in capacity, traffic and passenger revenues partly reflect the lower comparative base.

Geopolitical developments in the Middle East continued to drive significant increases in fuel prices during the quarter. In response, Air Canada implemented fare and fee actions and made selective capacity adjustments to mitigate the impact of elevated fuel costs and align capacity with market conditions.

Revenues from premium cabins increased 19% in the third quarter of 2026 and represented approximately 28% of total passenger revenues.

Sixth-freedom revenues increased 16% year over year, driven by growth in the U.S.–Atlantic and U.S.–Pacific corridors, with particularly strong traffic growth from the U.S. to Asia Pacific.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2026	2025	$ Change	% Change [1]	2026	2025	$ Change	% Change [1]
Canada	$ 1,763	$ 1,426	$ 337	23.6	$ 4,486	$ 3,927	$ 559	14.2
U.S. transborder	1,148	904	244	27.1	3,193	2,856	337	11.8
Atlantic	2,259	1,955	304	15.5	5,154	4,538	616	13.6
Pacific	828	684	144	21.1	2,325	2,017	308	15.2
Other	345	275	70	25.4	1,553	1,268	285	22.5
System	**$ 6,343**	**$ 5,244**	**$ 1,099**	**21.0**	**$ 16,711**	**$ 14,606**	**$ 2,105**	**14.4**

(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.

	Third Quarter 2026 versus Third Quarter 2025					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	23.6	2.5	7.2	3.8	15.3	20.6
U.S. transborder	27.1	2.7	8.4	4.5	17.3	23.8
Atlantic	15.5	5.2	7.8	2.2	7.2	9.9
Pacific	21.1	13.6	13.3	(0.2)	6.9	6.7
Other	25.4	8.3	12.8	3.6	11.2	15.7
System	**21.0**	**5.7**	**8.9**	**2.6**	**11.0**	**14.4**

	First Nine Months 2026 versus First Nine Months 2025					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	14.2	1.4	5.8	3.6	8.0	12.6
U.S. transborder	11.8	(4.8)	0.6	4.6	11.1	17.5
Atlantic	13.6	1.2	5.2	3.4	7.9	12.2
Pacific	15.2	9.2	10.1	0.8	4.6	5.5
Other	22.5	13.7	16.6	2.2	5.0	7.7
System	**14.4**	**2.9**	**6.7**	**3.1**	**7.3**	**11.2**

Domestic Passenger Revenues

Domestic passenger revenues increased 24% in the third quarter of 2026. On a 2.5% capacity increase, traffic grew 7.2%, resulting in a 3.8-percentage-point improvement in passenger load factor. Yield increased 15.3%, reflecting strong demand and higher pricing year over year.

For the first nine months of 2026, domestic passenger revenues increased 14%. On a 1.4% capacity increase, traffic grew 5.8%, resulting in a 3.6-percentage-point improvement in passenger load factor. Yield increased 8.0% year over year supported by higher average fares and strong demand.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues increased 27% in the third quarter of 2026. On a 2.7% increase in capacity, traffic grew 8.4%, resulting in a 4.5-percentage-point improvement in passenger load factor. The combination of a 17.3% increase in yield and higher passenger load factor drove a 23.8% increase in PRASM—the strongest increase among Air Canada's geographic markets during the quarter.

For the first nine months of 2026, U.S. transborder passenger revenues increased 12%. Despite a 4.8% reduction in capacity, traffic increased 0.6%, resulting in a 4.6 percentage-point improvement in passenger load factor. The combination of an 11.1% increase in yield and higher passenger load factor drove a 17.5% increase in PRASM.

Canada–U.S. travel demand remained stable, although below the levels observed before February 2025. Against this backdrop, lower industry capacity supported stronger yields and passenger load factors.

Atlantic Passenger Revenues

Atlantic passenger revenues increased 16% in the third quarter of 2026. On a 5.2% increase in capacity, traffic grew 7.8%, resulting in a 2.2 percentage-point improvement in passenger load factor. The combination of a 7.2% increase in yield and higher passenger load factor drove a 9.9% increase in PRASM.

For the first nine months of 2026, Atlantic passenger revenues increased 14%. On a 1.2% increase in capacity, traffic grew 5.2%, resulting in a 3.4 percentage-point improvement in passenger load factor. The combination of a 7.9% increase in yield and higher passenger load factor drove a 12.2% increase in PRASM.

Pacific Passenger Revenues

Pacific passenger revenues increased 21% in the third quarter of 2026. On a 13.6% increase in capacity, traffic grew 13.3%, resulting in a 0.2 percentage-point decrease in passenger load factor. A 6.7% increase in yield drove a 6.9% increase in PRASM.

For the first nine months of 2026, Pacific passenger revenues increased 15%. On a 9.2% increase in capacity, traffic grew 10.1%, resulting in a 0.8 percentage-point improvement in passenger load factor. The combination of a 4.6% increase in yield and higher passenger load factor drove a 5.5% increase in PRASM.

Despite healthy demand and higher average fares year over year, yield growth in both the third quarter and first nine months of 2026 was moderated by industry capacity growth in Pacific markets.

Other Passenger Revenues

Other passenger revenues increased 25% in the third quarter of 2026. On an 8.3% increase in capacity, traffic grew 12.8%, resulting in a 3.6 percentage-point improvement in passenger load factor. The combination of a 11.2% increase in yield, reflecting stronger pricing across the Caribbean and Latin American markets, and higher passenger load factor drove a 15.7% increase in PRASM.

For the first nine months of 2026, other passenger revenues increased 22%. On a 13.7% increase in capacity, traffic grew 16.6%, resulting in a 2.2 percentage-point improvement in passenger load factor. The combination of a 5.0% increase in yield and higher passenger load factor drove a 7.7% increase in PRASM.

Cargo Revenues

Cargo revenues increased $78 million, or 33%, to $317 million in the third quarter of 2026 and increased $159 million, or 21%, to $901 million in the first nine months of 2026 compared to the corresponding periods 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. To a lesser extent, higher cargo volumes also contributed to the year-over-year increases in both periods.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2026	2025	$ Change	% Change [1]	2026	2025	$ Change	% Change [1]
Canada	$ 50	$ 29	$ 21	71.0	$ 137	$ 82	$ 55	67.1
U.S. transborder	14	13	1	10.6	40	42	(2)	(3.7)
Atlantic	103	85	18	20.3	297	263	34	12.4
Pacific	106	77	29	39.2	292	238	54	23.2
Other	44	35	9	23.8	135	117	18	15.2
System	**$ 317**	**$ 239**	**$ 78**	**32.6**	**$ 901**	**$ 742**	**$ 159**	**21.4**

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

Other Revenues

Other revenues increased $33 million, or 11%, to $324 million in the third quarter of 2026 and increased $169 million, or 13%, to $1,423 million in the first nine months of 2026, compared to the corresponding 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 $1,233 million, or 22%, to $6,723 million in the third quarter of 2026. Aircraft fuel expense was the largest contributor, rising $906 million, or 75%, compared to the same period in 2025. Higher labour, depreciation, amortization and impairment, sales and distribution, and aircraft maintenance expenses also contributed to the increase.

For the first nine months of 2026, operating expenses increased $2,864 million, or 18%, to $18,872 million. Aircraft fuel expense was the largest contributor, rising $1,479 million, or 42%, to $5,025 million. Higher labour and other operating costs also contributed to the year-over-year increase.

The principal components of the year-over-year movement in operating expenses are discussed below.

Aircraft fuel

Aircraft fuel expense increased $906 million, or 75%, to $2,118 million in the third quarter of 2026. A 68% increase in fuel price per litre, net of $22 million jet fuel hedging gains, was the primary driver, while fuel litres consumed increased 5%, broadly consistent with capacity growth.

For the first nine months of 2026, aircraft fuel expense increased $1,479 million, or 42%, to $5,025 million. The increase reflected an approximately 40% increase in fuel price per litre, net of $265 million jet fuel hedging gains, and a 2% increase in fuel litres consumed.

Wages, salaries and benefits

Wages, salaries and benefits expense increased $112 million, or 8%, to $1,476 million in the third quarter of 2026. The increase primarily reflected higher wage rates, benefits and other compensation-related costs, and to a lesser extent, higher average number of full-time-equivalent employees year over year. In the third quarter of 2026, Air Canada recorded a $131 million past service pension cost associated with the collective agreement concluded with the International Association of Machinists and Aerospace Workers (IAMAW). Separately, Air Canada recorded a $6 million charge associated with the share trust in the third quarter of 2026.

In the third quarter of 2025, Air Canada recorded charges totalling $173 million, comprising a $149 million non-cash past service pension cost arising from plan amendments following the agreement reached with the Canadian Union of Public Employees (CUPE) and costs associated with streamlining Air Canada's management structure.

For the first nine months of 2026, wages, salaries and benefits expense increased $719 million, or 19%, to $4,469 million. The year-over-year increase included charges of $167 million related to lump-sum payments to pensioners, a $6 million charge associated with the share trust, $132 million for a past service pension cost associated with the collective agreement concluded with Unifor, $131 million for a past service pension cost associated with the collective agreement concluded with IAMAW, $41 million related to voluntary separation packages and $20 million for a benefits-related past service cost arising from a legislative change. These charges compared to an expense of $173 million recorded in the first nine months of 2025, as described above. Higher wage rates and other compensation-related costs also contributed to the increase, partly offset by a lower average number of full-time-equivalent employees.

Depreciation, amortization and impairment

Depreciation, amortization and impairment expense increased $51 million, or 10%, to $555 million in the third quarter of 2026 and $117 million, or 8%, to $1,607 million in the first nine months of 2026. The increases were mainly due to a higher asset base resulting from aircraft deliveries and capitalized maintenance events.

Airport and navigation fees

Airport and navigation fees increased $29 million, or 7%, to $462 million in the third quarter of 2026 and increased $101 million, or 8%, to $1,298 million in the first nine months of 2026. The increases primarily reflect higher airport charges due to increased flying activity, higher rates and greater passenger volumes year over year.

Aircraft maintenance

Aircraft maintenance expense increased $36 million, or 11%, to $368 million in the third quarter of 2026 and increased $83 million, or 8%, to $1,089 million in the first nine months of 2026. 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 $40 million, or 15%, to $314 million in the third quarter of 2026 and increased $86 million, or 11%, to $900 million in the first nine months of 2026. 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 decreased $23 million, or 3%, to $694 million in the third quarter of 2026. Higher miscellaneous fees and services, terminal handling, crew cycle, and building rent and maintenance expenses were more than offset by lower expenses in other categories, primarily reflecting the absence of approximately $90 million of incremental customer reimbursement and labour-related operating costs associated with the August 2025 labour disruption and a $17 million reduction in estimated costs associated with contractual lease obligations.

For the first nine months of 2026, other operating expenses increased $75 million, or 4%, to $2,004 million. Higher miscellaneous fees and services, building rent and maintenance, crew cycle, and terminal handling expenses were partially offset by the absence of approximately $90 million of incremental customer reimbursement and labour-related operating costs associated with the August 2025 labour disruption, as well as a $17 million reduction in estimated costs associated with contractual lease obligations recorded in the third quarter of 2026. Miscellaneous fees and services included a $28 million provision recorded in the second quarter of 2026.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2026	2025	$ Change	% Change [1]	2026	2025	$ Change	% Change [1]
Terminal handling	$ 164	$ 151	$ 13	9	$ 456	$ 431	$ 25	6
Crew cycle	116	106	10	9	299	271	28	10
Building rent and maintenance	89	81	8	10	271	236	35	15
Miscellaneous fees and services	82	62	20	32	237	201	36	18
Remaining other expenses	243	317	(74)	(23)	741	790	(49)	(6)
Total other expenses	**$ 694**	**$ 717**	**$ (23)**	**(3)**	**$ 2,004**	**$ 1,929**	**$ 75**	**4**

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

CASM and Adjusted CASM

CASM increased 15.9% to 22.49 cents in the third quarter of 2026, as higher operating expenses, primarily aircraft fuel and labour expense, more than offset capacity growth of 5.7%. For the first nine months of 2026, CASM increased 14.6% to 23.11 cents, mainly reflecting higher aircraft fuel and labour expenses, partially offset by capacity growth of 2.9%.

Adjusted CASM increased 3.3% to 14.45 cents in the third quarter of 2026, primarily due to higher labour, sales and distribution, depreciation and amortization, catering and onboard services, and aircraft maintenance costs, partially offset by lower other operating expenses and capacity growth of 5.7%. For the first nine months of 2026, adjusted CASM increased 5.3% to 15.29 cents, driven primarily by higher labour costs, together with higher depreciation and amortization,

airport and navigation, sales and distribution, aircraft maintenance, and catering and onboard service costs, partially offset by capacity growth of 2.9%.

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

(Cents per ASM)	Third Quarter				First Nine Months			
	2026	2025	¢ Change	% Change [1]	2026	2025	¢ Change	% Change [1]
CASM	**¢ 22.49**	**¢ 19.41**	**¢ 3.08**	**15.9**	**¢ 23.11**	**¢ 20.16**	**¢ 2.95**	**14.6**
Remove:								
Aircraft fuel expense, ground package costs, freighter costs, pension plan share trust, pension plan amendments, benefit-related past service cost, provision for legal reserve and provision for contractual lease obligation	(8.04)	(5.42)	(2.62)	48.3	(7.82)	(5.64)	(2.18)	38.7
Adjusted CASM	**¢ 14.45**	**¢ 13.99**	**¢ 0.46**	**3.3**	**¢ 15.29**	**¢ 14.52**	**¢ 0.77**	**5.3**

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

Non-Operating Income (Expense)

Non-operating expense in the third quarter and first nine months of 2026 totalled $13 million and $108 million, respectively, compared to non-operating income of $227 million and non-operating expense of $147 million in the third quarter of 2025 and first nine months of 2025, respectively.

Foreign exchange resulted in a $43 million gain in the third quarter of 2026 and a gain of $142 million in the first nine months of 2026. The results primarily reflected movements in the Canadian dollar relative to the U.S. dollar during the quarter and the first nine months of 2026. Revaluation of U.S. dollar-denominated debt and lease liabilities resulted in a gain of $22 million for the third quarter and a loss of $261 million for the first nine months of 2026. Foreign exchange derivatives generated gains of $24 million and $403 million for the third quarter and first nine months of 2026, respectively. The September 30, 2026 closing exchange rate was US$1=$1.42 compared to US$1=$1.42 at June 30, 2026 and US$1=$1.37 at December 31, 2025.

Interest expense of $149 million and $466 million in the third quarter and first nine months of 2026, decreased $13 million and $42 million, respectively, from the same periods in 2025. These declines were largely due to scheduled debt repayments. 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 $82 million in the first nine months of 2026, in relation to the completion of sale and leaseback transactions. There were no sale and leaseback transactions in the third quarter of 2026.

In the first nine months 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 tables also provide 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	Sep. 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	(35)	12	(12)	-	-	-
Airbus A321XLR	-	3	3	6	9	9	18
Airbus A321	21	-	21	5	26	8	34
Airbus A320	22	(1)	21	-	21	(3)	18
Airbus A319	1	(1)	-	-	-	-	-
Airbus A220-300	41	8	49	7	56	9	65
Total narrow-body aircraft	132	(26)	106	6	112	23	135
Total Mainline	**223**	**(26)**	**197**	**8**	**205**	**29**	**234**

AIR CANADA rouge	Actual			Planned*			
	Dec. 31, 2025	Year to date Changes	Sep. 30, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Narrow-body aircraft							
Boeing 737 MAX 8*	-	40	40	12	52	-	52
Airbus A321	13	-	13	(5)	8	(8)	-
Airbus A320	5	(1)	4	(4)	-	-	-
Airbus A319	15	(4)	11	(11)	-	-	-
Total Air Canada Rouge	**33**	**35**	**68**	**(8)**	**60**	**(8)**	**52**

Total Mainline & Rouge	**256**	**9**	**265**	**-**	**265**	**21**	**286**

*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	Sep. 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	1	30
De Havilland Dash 8-400	41	(2)	39	2	41	-	41
Total Air Canada Express	**97**	**(4)**	**93**	**2**	**95**	**1**	**96**

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 12 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 September 30, 2026, total liquidity was $8,018 million comprised of cash and cash equivalents, short-term and long-term investments of $6,634 million, and $1,384 million available under undrawn credit facilities. Cash and cash equivalents included $333 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents and short- and long-term investments. Liquidity needs, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

7.2. NET DEBT

The table below reflects Air Canada's net debt balances as at the periods indicated.

(Canadian dollars in millions)	September 30, 2026	December 31, 2025	Change	September 30, 2025
Total long-term debt and lease liabilities	$ 9,473	$ 8,609	$ 864	$ 8,699
Current portion of long-term debt and lease liabilities	1,380	2,967	(1,587)	3,070
Total long-term debt and lease liabilities (including current portion)	**10,853**	**11,576**	**(723)**	**11,769**
Less cash, cash equivalents and short and long-term investments	(6,634)	(6,165)	(469)	(6,939)
Net debt [(1)]	**$ 4,219**	**$ 5,411**	**$ (1,192)**	**$ 4,830**
Adjusted EBITDA (trailing 12 months)	**$ 3,145**	**$ 3,124**	**$ 21**	**$ 2,953**
Net debt to adjusted EBITDA ratio [(1)]	**1.3**	**1.7**	**(0.4)**	**1.6**

(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 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 1.3 at September 30, 2026, compared to 1.7 at December 31, 2025. Net debt decreased by $1,192 million, reflecting an increase in cash, cash equivalents and short- and long-term investments and a decrease in total long-term debt and lease liabilities. The increase in cash, cash equivalents and short- and long-term investments was supported by net cash flows from operating activities of $2,715 million and proceeds from the minority equity investment in Aeroplan, partially offset by the use of $1,070 million for the purchase of shares for cancellation, as discussed in section 7.8 "Share Information" of this MD&A, and $1,878 million of additions to property, equipment and intangible assets, as discussed in section 7.4 "Cash Flow Movements" of this MD&A. The decrease in total long-term debt and lease liabilities primarily reflected the repayment at maturity of the US$1.2 billion senior secured notes in August 2026, using proceeds from the minority equity investment in Aeroplan. Additional borrowings to support aircraft financing initiatives and the impact of a weaker Canadian dollar on U.S. dollar-denominated debt and lease liabilities partially offset the decrease. Operating income for the trailing 12 months ended September 30, 2026 was $487 million, compared to $340 million in the corresponding period of 2025.

In January 2026, Air Canada completed a repricing of its U.S. 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 September 30, 2026, and December 31, 2025.

(Canadian dollars in millions)	September 30, 2026	December 31, 2025	Change
Cash, cash equivalents and short-term investments	$ 6,006	$ 5,525	$ 481
Accounts receivable	1,478	1,292	186
Other current assets	1,191	1,099	92
Total current assets	**$ 8,675**	**$ 7,916**	**$ 759**
Accounts payable and accrued liabilities	4,807	4,513	294
Advance ticket sales	5,517	4,814	703
Aeroplan and other deferred revenues	1,851	1,840	11
Current portion of long-term debt and lease liabilities	1,380	2,967	(1,587)
Total current liabilities	**$ 13,555**	**$ 14,134**	**$ (579)**
Net working capital deficiency	**$ (4,880)**	**$ (6,218)**	**$ 1,338**

Net working capital deficiency decreased by $1,338 million to $4,880 million at September 30, 2026 from December 31, 2025. Total current assets increased in the first nine months of 2026 mainly due to higher cash and cash equivalents resulting from the increase in advance ticket sales. The net working capital deficiency decreased primarily due to a reduction in the current portion of long-term debt and lease liabilities following the repayment of the US$1.2 billion senior secured notes at maturity, which was funded using proceeds from the equity investment in Aeroplan.

7.4. CASH FLOW MOVEMENTS

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2026	2025	$ Change	2026	2025	$ Change
Net cash flows from operating activities	$ 266	$ 813	$ (547)	$ 2,715	$ 3,234	$ (519)
Net cash flows used in financing activities	(462)	(357)	(105)	(964)	(2,065)	1,101
Net cash flows from (used in) investing activities	(904)	100	(1,004)	(1,179)	204	(1,383)
Effect of exchange rate changes on cash and cash equivalents	(10)	(2)	(8)	40	(1)	41
Increase (decrease) in cash and cash equivalents	**$ (1,110)**	**$ 554**	**$ (1,664)**	**$ 612**	**$ 1,372**	**$ (760)**

Net Cash Flows from Operating Activities

Net cash flows from operating activities were $266 million in the third quarter of 2026 and $2,715 million in the first nine months of 2026. The year-over-year decrease of $547 million in the third quarter of 2026 primarily reflected a larger use of cash from non-cash working capital balances and changes in maintenance provisions. The decrease of $519 million in the first nine months of 2026 primarily reflected a lower contribution from non-cash working capital balances and changes in maintenance provisions. In the third quarter of 2025, cash flows from operating activities were impacted by timing delays in accounts payable processing, including customer compensation amounts accrued but not yet processed for payment. No such timing delays were experienced in the third quarter of 2026.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities of $462 million in the third quarter of 2026 increased by $105 million year-over-year, primarily due to higher repayments of long-term debt and lease liabilities, including the repayment of the US$1.2 billion senior secured notes at maturity, and shares purchased for cancellation of approximately $800 million, partially offset by the proceeds from the equity investment in Aeroplan.

For the first nine months of 2026, net cash flows used in financing activities of $964 million decreased by $1,101 million year-over-year, primarily due to the proceeds from the equity investment in Aeroplan and higher proceeds from borrowings, partially offset by higher repayments of long-term debt and lease liabilities and shares purchased for cancellation.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities of $904 million represented a $1,004 million change year-over-year, primarily reflecting differences in the net purchases of short- and long-term investments, as well as higher capital expenditures.

For the first nine months of 2026, net cash flows used in investing activities of $1,179 million represented a $1,383 million change year-over-year, primarily reflecting lower net proceeds from short- and long-term investments, partially offset by proceeds from sale and leaseback transactions, as described in section 7.5 "Capital Expenditures and Related Financing Arrangements" of this MD&A.

Free Cash Flow

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2026	2025	$ Change	2026	2025	$ Change
Net cash flows from operating activities	**$ 266**	**$ 813**	**$ (547)**	**$ 2,715**	**$ 3,234**	**$ (519)**
Additions to property, equipment, and intangible assets	(706)	(602)	(104)	(1,878)	(2,009)	131
Proceeds from sale and leaseback of assets	-	-	-	501	-	501
Free cash flow [(1)]	**$ (440)**	**$ 211**	**$ (651)**	**$ 1,338**	**$ 1,225**	**$ 113**

(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 of negative $440 million in the third quarter of 2026 decreased by $651 million year-over-year, reflecting lower net cash flows from operating activities and higher capital expenditures. Free cash flow of $1,338 million in the first nine months of 2026 increased $113 million year-over-year, reflecting proceeds from sale and leaseback transactions and lower capital expenditures, partially offset by lower net cash flows from operating activities.

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 three aircraft were delivered in the first nine months of 2026 and 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, 49 were delivered as at September 30, 2026. Deliveries for the 16 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 September 30, 2026 amounted to $12,098 million.

(Canadian dollars in millions)	Remainder of 2026	2027	2028	2029	2030	Thereafter	Total
Committed expenditures	$ 1,222	$ 3,081	$ 1,696	$ 1,539	$ 1,363	$ 3,197	$ 12,098
Projected planned but uncommitted expenditures	318	619	945	811	817	Not available	Not available
Projected planned but uncommitted capitalized maintenance [1]	189	801	928	880	798	Not available	Not available
Total projected expenditures [2]	**$ 1,729**	**$ 4,501**	**$ 3,569**	**$ 3,230**	**$ 2,978**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2029 and beyond are not yet determinable, however estimates of $880 million and $798 million have been made for 2029 and 2030, respectively.

(2) U.S. dollar amounts are converted using the September 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. Air Canada completed a part of such sale and leaseback transactions for total proceeds of $501 million in the first nine months of 2026. Air Canada also completed definitive and binding agreements for the remaining part of the sale and leaseback transactions. Closing and receipt of proceeds are subject to completion of standard conditions precedent, including delivery of the aircraft that are subject to such sale and leaseback transactions.

7.6. PENSION FUNDING OBLIGATIONS

At January 1, 2026, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $4.8 billion and reflects recent plan amendments. 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 and third quarters of 2026, Air Canada concluded four-year collective agreements with Unifor and IAMAW, respectively, and recorded pension past service costs of $132 million and $131 million ($263 million for the nine months ended September 30, 2026) to reflect changes included in the agreements. Some of these changes are conditional on future pension solvency 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 is funded out of the surplus in the domestic registered pension plans and is 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 were included in plan assets for determining the net benefit obligation for accounting purposes as at December 31, 2025. The trust arrangement provided 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 has commenced gradually 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. Initial costs associated with the share trust of $6 million were recorded in the third quarter of 2026. These charges, recorded in Wages, salaries and benefits, were offset by a corresponding gain in other comprehensive income.

Proceeds from the sale of 5,276,023 trust shares during the third quarter of 2026 will fund the voluntary separation program and an initial payment of $100 million to pensioners during the fourth quarter of 2026. As at September 30, 2026, 12,370,742 shares remain included in plan assets for determining the net benefit obligation for accounting purposes.

7.7. CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at September 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]	$ 59	$ 1,130	$ 1,417	$ 2,349	$ 491	$ 2,164	$ 7,610
Lease liabilities	141	478	444	360	344	1,570	3,337
Total principal obligations	**$ 200**	**$ 1,608**	**$ 1,861**	**$ 2,709**	**$ 835**	**$ 3,734**	**$ 10,947**
Interest							
Long-term debt	$ 54	$ 316	$ 254	$ 237	$ 127	$ 91	$ 1,079
Lease liabilities	47	168	142	117	97	420	991
Total interest obligations	**$ 101**	**$ 484**	**$ 396**	**$ 354**	**$ 224**	**$ 511**	**$ 2,070**
Total long-term debt and lease liabilities	**$ 301**	**$ 2,092**	**$ 2,257**	**$ 3,063**	**$ 1,059**	**$ 4,245**	**$ 13,017**
Committed capital expenditures	**$ 1,222**	**$ 3,081**	**$ 1,696**	**$ 1,539**	**$ 1,363**	**$ 3,197**	**$ 12,098**
Total contractual obligations [2]	**$ 1,523**	**$ 5,173**	**$ 3,953**	**$ 4,602**	**$ 2,422**	**$ 7,442**	**$ 25,115**

(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:

	September 30, 2026	December 31, 2025
Issued and outstanding shares		
Class A variable voting shares	73,220,033	66,330,053
Class B voting shares	179,525,298	228,219,567
Total issued and outstanding shares	**252,745,331**	**294,549,620**
Class A variable voting and Class B voting shares potentially issuable		
Stock options	12,904,328	12,137,096
Total shares potentially issuable	**12,904,328**	**12,137,096**
Total outstanding and potentially issuable shares	**265,649,659**	**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 first nine months of 2026, Air Canada purchased for cancellation 14,516,991 shares at an average cost of $18.39 per share for aggregate consideration of $267 million. There were no purchases during the third quarter 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.

Substantial Issuer Bid

In August 2026, Air Canada announced a substantial issuer bid (the "2026 Offer") pursuant to which Air Canada offered to purchase for cancellation up to $800 million of its Class A variable voting shares and Class B voting shares (collectively, the "shares"). The 2026 Offer was made by way of a modified "Dutch auction" under which shareholders wishing to tender could do so through (i) an auction tender at a price not less than $29.00 per share and not more than $33.00 per share or (ii) a purchase price tender at the purchase price to be determined by the auction tenders. A total of about 66.8 million shares were validly deposited in the 2026 Offer and not withdrawn pursuant to auction tenders at $29.00 or purchase price tenders. Since the 2026 Offer was oversubscribed, about 41% of the successfully tendered shares were purchased by Air Canada, other than "odd lot" tenders not subject to proration.

On September 28, 2026, Air Canada paid TSX Trust Company (Canada), the depositary under the 2026 Offer, approximately $800 million for the purchase of 27,586,206 of its shares at a price of $29.00 per share. Settlement was made by the depositary in accordance with the 2026 Offer.

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	2025				2026		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenues	$ 5,404	$ 5,196	$ 5,632	$ 5,774	$ 5,770	$ 5,785	$ 6,266	$ 6,984
Operating expenses	5,658	5,304	5,214	5,490	5,446	5,668	6,481	6,723
Operating income (loss)	**(254)**	**(108)**	**418**	**284**	**324**	**117**	**(215)**	**261**
Non-operating income (expense)	**(467)**	**(59)**	**(315)**	**227**	**18**	**6**	**(101)**	**(13)**
Income (loss) before income taxes	**(721)**	**(167)**	**103**	**511**	**342**	**123**	**(316)**	**248**
Income tax recovery (expense)	77	65	83	(247)	(46)	(75)	138	(102)
Net income (loss) for the period	**$ (644)**	**$ (102)**	**$ 186**	**$ 264**	**$ 296**	**$ 48**	**$ (178)**	**$ 146**
Basic earnings (loss) per share – attributable to shareholders of Air Canada	**$ (1.81)**	**$ (0.31)**	**$ 0.58**	**$ 0.89**	**$ 1.00**	**$ 0.16**	**$ (0.63)**	**$ 0.49**
Diluted earnings (loss) per share – attributable to shareholders of Air Canada	**$ (1.81)**	**$ (0.40)**	**$ 0.51**	**$ 0.88**	**$ 1.00**	**$ 0.16**	**$ (0.63)**	**$ 0.49**
Adjusted EBITDA [(1)]	**$ 696**	**$ 387**	**$ 909**	**$ 961**	**$ 867**	**$ 623**	**$ 719**	**$ 936**
Adjusted pre-tax income (loss) [(1)]	**$ 135**	**$ (215)**	**$ 300**	**$ 329**	**$ 244**	**$ 18**	**$ 77**	**$ 328**
Adjusted net income (loss) attributable to shareholders of Air Canada [(1)]	**$ 93**	**$ (150)**	**$ 207**	**$ 223**	**$ 191**	**$ (16)**	**$ 114**	**$ 214**
Adjusted earnings (loss) per share attributable to shareholders of Air Canada – diluted [(1)]	**$ 0.25**	**$ (0.45)**	**$ 0.60**	**$ 0.75**	**$ 0.65**	**$ (0.05)**	**$ 0.40**	**$ 0.75**

(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 third quarter of 2026.

Fuel Price Risk Management

During the third quarter of 2026, jet fuel swap derivative contracts cash settled with a fair value of $22 million in favour of Air Canada, with a hedging gain of $22 million recorded in Aircraft fuel expense ($265 million gain for the nine-month period ended September 30, 2026; $29 million gain and $48 million gain, respectively, for the three- and nine-month periods ended September 30, 2025). There were no fuel derivatives outstanding as at September 30, 2026.

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 September 30, 2026, Air Canada had outstanding foreign currency options and swap agreements, settling in 2026, 2027 and 2028, to purchase at maturity $8,302 million (US$5,851 million) of U.S. dollars at a weighted average rate of CDN$1.3815 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 September 30, 2026 was $146 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 third quarter of 2026, foreign exchange gain (loss) related to these derivatives was $24 million gain ($403 million gain for the nine-month period ended September 30, 2026; $539 million gain and $182 million loss respectively for the three- and nine-month periods ended September 30, 2025). In the third quarter of 2026, foreign exchange derivative contracts cash settled with a net fair value of $36 million in favour of Air Canada ($14 million in favour of Air Canada for the nine-month period ended September 30, 2026; $11 million in favour of the counterparties and $48 million in favour of Air Canada respectively for the three- and nine-month periods ended September 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. 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 third quarter of 2026. An update to the principles of consolidation is provided below to reflect the minority equity investment in Aeroplan as described in section 4 "Overview".

Principles of consolidation

Air Canada's consolidated financial statements include the accounts of Air Canada and its subsidiaries. Subsidiaries are all entities which Air Canada controls. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-company balances and transactions are eliminated. Net income and comprehensive income are attributed to Air Canada shareholders and non-controlling interests based on the non-controlling interest's share of the net income in the subsidiary in which they hold their interest. Equity attributable to Air Canada shareholders is reported separately from non-controlling interests in total equity.

Accounting standard adopted in 2026

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.

Accounting standards issued but not yet effective

IFRS 18 Presentation and Disclosure in Financial Statements 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 continued the development of processes and systems required to support the new presentation requirements, including the 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 income statement and statement of cash flows for the first and second quarters 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

As at September 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 2026, Air Canada concluded new four-year collective agreements with IAMAW and Unifor. Air Canada recorded pension past service cost charges of $131 million related to the IAMAW agreement in the third quarter and $132 million related to the Unifor agreement in the second quarter. Separately, Air Canada recorded a $6 million charge associated with the share trust in the third quarter and, in the second quarter, a $208 million charge related to pensioner lump-sum payments and voluntary separation packages funded from proceeds of the union pension funding trust, as well as 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 corporate charge of $26 million for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in 2025. As this item is non-recurring and cash-neutral to Air Canada, since a related tax refund was also recorded, Air Canada added back this expense in the calculation of adjusted pre-tax income and adjusted net income – attributable to shareholders of Air Canada.

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. In the third quarter of 2026, Air Canada recorded a $17 million reduction related to the estimated costs recorded in 2024 as previously described. Air Canada excluded this expense and the subsequent reduction 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 September 30, 2026 and as at September 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)	Third Quarter			First Nine Months		
	2026	2025	Change	2026	2025	Change
Operating expense – GAAP	**$ 6,723**	**$ 5,490**	**$ 1,233**	**$ 18,872**	**$ 16,008**	**$ 2,864**
Adjusted for:						
Aircraft fuel	(2,118)	(1,212)	(906)	(5,025)	(3,546)	(1,479)
Ground package costs	(114)	(103)	(11)	(710)	(633)	(77)
Freighter costs (excluding fuel)	(50)	(44)	(6)	(141)	(128)	(13)
Pension plan amendments and other labour-related charges	(131)	(173)	42	(263)	(173)	(90)
Pension plan share trust	(6)	-	(6)	(214)	-	(214)
Benefit-related past service cost	-	-	-	(20)	-	(20)
Provision for legal reserve	-	-	-	(28)	-	(28)
Provision for contractual lease obligations	17	-	17	17	-	17
Operating expense, adjusted for the above-noted items	**$ 4,321**	**$ 3,958**	**$ 363**	**$ 12,488**	**$ 11,528**	**960**
ASMs (millions)	**29,893**	**28,282**	**5.7%**	**81,664**	**79,382**	**2.9%**
Adjusted CASM (cents)	**¢ 14.45**	**¢ 13.99**	**¢ 0.46**	**¢ 15.29**	**¢ 14.52**	**¢ 0.77**

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)	Third Quarter			First Nine Months		
	2026	2025	Change	2026	2025	Change
Operating income – GAAP	**$ 261**	**$ 284**	**$ (23)**	**$ 163**	**$ 594**	**$ (431)**
Add back:						
Depreciation, amortization and impairment	555	504	51	1,607	1,490	117
Pension plan amendments and other labour-related charges	131	173	(42)	263	173	90
Pension plan share trust	6	-	6	214	-	214
Benefit-related past service cost	-	-	-	20	-	20
Provision for legal reserve	-	-	-	28	-	28
Provision for contractual lease obligations	(17)	-	(17)	(17)	-	(17)
Adjusted EBITDA	**$ 936**	**$ 961**	**$ (25)**	**$ 2,278**	**$ 2,257**	**$ 21**
Operating revenues	**$ 6,984**	**$ 5,774**	**$ 1,210**	**$ 19,035**	**$ 16,602**	**$ 2,433**
Operating margin (%)	**3.7**	**4.9**	**(1.2) pp**	**0.9**	**3.6**	**(2.7) pp**
Adjusted EBITDA margin (%)	**13.4**	**16.6**	**(3.2) pp**	**12.0**	**13.6**	**(1.6) pp**

(Canadian dollars in millions)	12 months ended		
	Sep. 30, 2026	Dec. 31, 2025	Sep. 30, 2025
Operating income – GAAP	**$ 487**	**$ 918**	**$ 340**
Add back:			
Depreciation, amortization and impairment	2,129	2,012	1,950
Pension plan amendments and other labour-related charges	284	194	663
Pension plan share trust	214	-	-
Benefit-related past service cost	20	-	-
Provision for legal reserve	28	-	-
Provision for contractual lease obligations	(17)	-	-
Adjusted EBITDA	**$ 3,145**	**$ 3,124**	**$ 2,953**

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:

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2026	2025	Change	2026	2025	Change
Income before income taxes – GAAP	**$ 248**	**$ 511**	**$ (263)**	**$ 55**	**$ 447**	**$ (392)**
Adjusted for:						
Foreign exchange (gain) loss	(43)	(343)	300	(142)	(142)	-
Net interest relating to employee benefits	(10)	(4)	(6)	(29)	(14)	(15)
Financial instruments recorded at fair value	13	(16)	29	16	(76)	92
Loss on debt settlements and modifications	-	-	-	56	-	56
Gain on sale and leaseback of assets	-	-	-	(82)	-	(82)
Other corporate expenses	-	8	(8)	-	26	(26)
Pension plan amendments and other labour-related charges	131	173	(42)	263	173	90
Pension plan share trust	6	-	6	214	-	214
Benefit-related past service cost	-	-	-	20	-	20
Provision for legal reserve, including interest expense	-	-	-	69	-	69
Provision for contractual lease obligations	(17)	-	(17)	(17)	-	(17)
Adjusted pre-tax income	**$ 328**	**$ 329**	**$ (1)**	**$ 423**	**$ 414**	**$ 9**

Adjusted Net Income (Loss) and Adjusted Earnings (Loss) per Share – Diluted – Attributable to Shareholders of Air Canada

Air Canada uses adjusted net income (loss) – attributable to shareholders of Air Canada and adjusted earnings (loss) per share attributable to shareholders of Air Canada – 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)	Third Quarter			First Nine Months		
	2026	2025	Change	2026	2025	Change
Net income attributable to shareholders of Air Canada – GAAP	**$ 139**	**$ 264**	**$ (125)**	**$ 9**	**$ 348**	**$ (339)**
Adjusted for amounts, net of amount attributable to non-controlling interest:						
Foreign exchange (gain) loss	(43)	(343)	300	(142)	(142)	-
Net interest relating to employee benefits	(10)	(4)	(6)	(29)	(14)	(15)
Financial instruments recorded at fair value	13	(16)	29	16	(76)	92
Loss on debt settlements and modifications	-	-	-	56	-	56
Gain on sale and leaseback of assets	-	-	-	(82)	-	(82)
Other corporate expenses	-	8	(8)	-	26	(26)
Pension plan amendments and other labour-related charges	131	173	(42)	263	173	90
Pension plan share trust	6	-	6	214	-	214
Benefit-related past service cost	-	-	-	20	-	20
Provision for legal reserve, including interest expense	-	-	-	69	-	69
Provision for contractual lease obligations	(17)	-	(17)	(17)	-	(17)
Income tax, including for the above reconciling items	(5)	141	(146)	(65)	(35)	(30)
Adjusted net income attributable to shareholders of Air Canada	**$ 214**	**$ 223**	**$ (9)**	**$ 312**	**$ 280**	**$ 32**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	283	297	(14)	287	328	(41)
Adjusted earnings per share attributable to shareholders of Air Canada – diluted	**$ 0.75**	**$ 0.75**	**$ -**	**$ 1.08**	**$ 0.85**	**$ 0.23**

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

(In millions)	Third Quarter		First Nine Months	
	2026	2025	2026	2025
Weighted average number of shares outstanding – basic	**280**	**296**	**285**	**316**
Effect of dilution	3	1	2	12
Weighted average number of shares outstanding – diluted	**283**	**297**	**287**	**328**

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 package costs at Air Canada Vacations, freighter costs and impairment of assets, if any, and other items. 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, amortization and impairment. When calculating adjusted EBITDA, Air Canada excludes impairment of assets, if any, and other items. 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) attributable to shareholders 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 miles 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 ratio. 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 and lease 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 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 passenger revenue per RPM.