AIR CANADA

Annual report 2024

Typographical error corrected on page 23.

A STAR ALLIANCE MEMBER

About forward-looking information

Certain disclosures contained or incorporated by reference in this Annual Report may include forward-looking statements within the meaning of applicable securities laws. These statements may involve, but are not limited to, comments relating to strategies, expectations, goals, targets, commitments, planned operations or future actions, including those relating to financial, operational, business, climate and other sustainability matters. Forward-looking statements, by their nature, are based on assumptions, are subject to important risks and uncertainties and cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including the factors identified in Section 18 of Air Canada's MD&A for the year ended December 31, 2024.

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

About non-GAAP measures

Certain disclosures contained or incorporated by reference in this Annual Report may include references to non-GAAP measures. These measures include adjusted CASM, adjusted EBITDA, adjusted net income, free cash flow and leverage ratio. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results.

The non-GAAP measures used in this Annual Report typically have exclusions or adjustments that include one or more of the following characteristics, such as being highly variable, difficult to project, unusual in nature, significant to the results of a particular period or not indicative of past or future operating results. These items are excluded because we believe these may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's performance and may allow a more meaningful comparison to other airlines or companies.

We provide an explanation of the composition of certain of Air Canada's non-GAAP financial measures and non-GAAP ratios referred to in this Annual Report and a reconciliation to the most comparable GAAP financial measure in our public disclosure file available at www.sedarplus.ca and, in particular sections 8.2 (Net Debt) and 20 (Non-GAAP Financial Measures) of Air Canada's 2024 MD&A, which sections are incorporated by reference herein.

What's inside

Navigating our Annual Report

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

Message from the President and Chief Executive Officer

I am pleased to present Air Canada's 2024 Annual Report. We are Canada's flag carrier and take great pride in bringing the best of Canada to the world as we connect people and bring them safely to their destinations. As we reflect on our 2024 performance, I would like to share the many reasons our leadership team is excited, positive and confident about the future of our airline. We are proud of our accomplishments and remain steadfast in progressing toward our goals and objectives to create sustainable value for all our stakeholders.

Our comprehensive strategy and competitive advantages allowed us to deliver solid results in 2024. We also owe these results to improved operational and customer service metrics, an excellent balance sheet with excess liquidity, effective risk management and investment practices and a strong focus on cost management. Our operating revenues increased to $22.3 billion in 2024 from $21.8 billion in 2023 in a competitive environment. In late 2024 and early 2025, we repurchased over 35 million shares under our buyback plan, providing direct value to all shareholders. We met key financial objectives and furthered our operational goals for the year. We refined and enhanced our offerings and customer experience through deliberate measures and targeted investments. Throughout the year, we strived to make a positive contribution to the people and the communities we serve.

New frontiers

In 2024, we expanded our reach, as the largest provider of scheduled passenger services in the Canadian, Canada-U.S. transborder and international markets to and from Canada. Our 1,032 daily flights, on average, reached 188 direct destinations on six continents, carrying over 47 million passengers — up from some 46 million in 2023. We introduced new routes and new destinations, contributing to a 30 per cent growth in capacity last summer into Asia-Pacific and a 25 per cent increase to key destinations in Southern Europe from 2023.

We also continued to invest strategically in best-in-class aircraft in 2024. Our growth from these fleet investments will drive network scale and deliver increased productivity and more long-term sustainable growth and profitability. We are acquiring the Boeing 787-10 and extra-long Airbus A321XLR aircraft, and we exercised options for additional A220s and are adding more 737 MAX aircraft to the fleet. The new aircraft will help us offer an enhanced travel experience for our customers. Our six cargo freighters in service also offer complementary revenue diversification and optimization.

We also further invested in product enhancements and sophisticated technologies to offer our customers more of the high-quality services for which Air Canada is known. This included improving our on-time performance (OTP) through a schedule optimizer tool, contributing to an eight-percentage-point increase in OTP in 2024 over 2023 and a 17 percentage-point increase from 2022. Our digital identification boarding option program was expanded for nearly all domestic flights from Vancouver.

We gave our customers more travel options through expanded air-to-rail connections across Europe and the U.K., as well as in South Korea. We are focused on pursuing and facilitating intermodal and multimodal travel options for our customers.

Aeroplan, our award-winning loyalty program, marked its 40th anniversary, growing to over nine million members and offering new, exclusive benefits to them. Aeroplan enhanced its partnership with Marriott Bonvoy, added new hotel properties to HotelSavers and partnered with Manulife, enabling members to earn points via its health programs.

The Air Canada Foundation **supported 360 Canadian charitable organizations** dedicated to the health and well-being of children and **distributed monetary and in-kind donations to 240 organizations** across the country through community partnerships. The Foundation **raised a record $1.4 million (net) from its annual golf tournament** and **provided flights to more than 400 children through its Hospital Transportation program** to secure their access to critical medical care.

Focusing on people

People are at the heart of our business. Our highest priority is the safety and well-being of our customers and colleagues. We provide the tools, resources and training for our over 41,000 employees to succeed and thrive safely.

We serve our customers with care and class and are proud to provide services in both English and French and in 24 route languages. In 2024, we concluded a four-year collective agreement with our pilots without disruption.

We continued to develop our relationships with organizations that contribute to their communities. We worked with the Air Canada Foundation, which supports 360 Canadian charitable organizations dedicated to the health and well-being of children and distributed both monetary and in-kind donations to 240 organizations across the country through community partnerships. The Foundation raised a record $1.4 million (net) from its annual golf tournament and, through its Hospital Transportation program, provided flights to more than 400 children to secure their access to critical medical care.

In 2024, our inclusion initiatives progressed, and we continued to foster a holistic approach to community outreach, representation and inclusion and engagement.

We published our accessibility progress report in 2024 and grew the Hidden Disabilities Sunflower program. We invested in more equipment for our Canadian airports to improve the travel experience for customers with a disability and established an Accessibility Advisory Committee to gather input from customers to help us map out our path and vision.

Looking toward the future

In 2024, we further pursued our climate-related ambition, whose medium- and long-term emission reduction goals are aspirational and contingent on many external factors including new infrastructure and advancements in technology. We also published our 2023 Taskforce on Climate-related Financial Disclosures (TCFD) summary, which outlines Air Canada's climate governance, strategy, risks and performance. There are significant challenges ahead to address climate change and the impacts arising from the aviation industry's activities. We are committed to meeting our ambitions in helping meet these challenges.

I want to express my gratitude to our customers, employees and partners for their ongoing dedication. I also want to convey my appreciation to our shareholders for their investment and to the Board for its guidance. With the end of Michael Wilson's term on the Board, I take this opportunity to reiterate the thanks that were extended to him by our Board Chair and fellow Board members for his commitment, leadership and guidance through an unprecedented period of global crisis and uncertainty, helping position Air Canada to reach new frontiers.

We look forward to continue working hard to deliver strong results. Thank you for your trust.

Michael Rousseau

2024 Business highlights

Over
41,000 employees end-2024
compared to about 39,000 in 2023

NETWORK GROWTH
1,032 average daily flights
vs. about 1,025 in 2023

Welcomed over 47.3M passengers
vs. about 46.2M in 2023

DIRECT DESTINATIONS
188 direct destinations on 6 continents
deep Canadian network and established international presence

16 new routes launched

About 104B ASMs
vs. around 99.0B in 2023

Operating capacity +5% with significant growth in the Pacific

Improved operational performance with an 8-percentage-point increase in on-time performance

Languages

- **2** official languages
- **24** route languages
- **80+** languages spoken globally by our employees

ADJUSTED EBITDA[1]
$3.586B
vs. $3.982B

OPERATING INCOME
$1.263B
$2.279B in 2023

ADJUSTED EBITDA MARGIN[1]
16.1%
vs. 18.2% in 2023

TOTAL LIQUIDITY
$9.154B at Dec. 31, 2024
$10.29B at Dec. 31, 2023

FREE CASH FLOW[1]
$1.3B
vs. $2.8B in 2023

LEVERAGE RATIO[1]
1.4x at Dec. 31, 2024
1.1x at Dec. 31, 2023

OPERATING REVENUES
Record $22.255B
vs. $21.833B in 2023

2024-25 NCIB
Bought back more than 35.8M voting shares, addressing some of the effects of dilutive financings in 2020 and in 2021

Hosted 2024 Investor Day to announce long-term plan

PILOT AGREEMENT
Concluded four-year collective agreement with our pilot group

Free Wi-Fi
Announced fast, free Bell-sponsored Wi-Fi on North America and sun flights from May 2025, with long-haul international routes to follow in 2026

Intermodal strategy
Expanded in Europe, launched air-to-rail connections in South Korea, supporting current and future connectivity with other modes of transport

Customer service excellence
ECX initiatives delivered such as baggage tracking and e-gates

FLEET RENEWAL
Ordered 5 additional Airbus A220s, bringing firm orders to 65, and leased 7 Boeing 737 MAX 8 aircraft

2025 SAF TARGETS
Significant SAF procurement on pace to meet our 1% target of our estimated jet fuel use in 2025

ACCESSIBILITY REQUESTS
Over 1.4M accessibility requests received

40 AEROPLAN

- Celebrated its 40th anniversary with record membership surpassing 9 million members
- New and expanded partnerships

CARGO

- $991M in revenues vs. $924M in 2023
- 6 freighters in service
- Added freighter service to Chicago, connecting Air Canada Cargo's global hub in Toronto with its self-handled warehouse operation in the U.S. city

AIR CANADA VACATIONS
Launched new guided tour packages to:

- Asia
- Australia
- Colombia
- Dubai
- India
- New Zealand

1) Leverage ratio is net debt to trailing 12-month Adjusted EBITDA. Adjusted EBITDA and leverage ratio are non-GAAP financial measures. Such measures are not recognized measures for financial statement presentation under generally accepted accounting principles in Canada (GAAP), do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for, or superior to, GAAP results. Please refer to section 20 "Non-GAAP Financial Measures" of Air Canada's 2024 MD&A (which section is incorporated by reference herein), which is available under Air Canada's profile on SEDAR+ at www.sedarplus.ca, for an explanation of the composition of these non-GAAP measures, an explanation of how they provide useful information to investors and the additional purposes for which management uses them, as well as a reconciliation to the most directly comparable GAAP measure.

Key industry awards

Award-winning airline

Skytrax World Airline Awards:

- The World's Best Business Class Airline Lounge Catering
- The Best Cabin Crew in Canada
- The Most Family Friendly Airline in North America
- Best Premium Economy Class Onboard Catering in North America
- Cleanest Airline in North America

Airline Passenger Experience Association (APEX):

- Passenger-Rated Five Star Global Airline Award at APEX 2025 Awards
- 2024 APEX Best in Entertainment Award in North America

Global Traveler magazine:

- Best Premium-Economy Class for 6th consecutive year
- Best Airline for Onboard Entertainment for 6th consecutive year
- Outstanding Environmental Initiatives

Trazee Awards:

- Favourite Airline in North American for 6th consecutive year

World Travel Awards

- World's Leading Airline to North America 2024

ATW Airline Industry Achievement Awards

- 2024 Cargo Operator of the Year, Air Canada Cargo is 1st Canadian operator to win

Project Green YVR Annual Summit

- Environmental stewardship

Seattle-Tacoma International Airport

- 2024 Fly Quiet Award

Travvy Awards

- Best Airline - International - Gold level

Award-winning loyalty program

Freddie Awards

- Airline Program of the Year and Best Promotion and Best Redemption Ability for Aeroplan

Point.Me

- Aeroplan is 1 of 5 best rewards programs on the planet
- Ease of Earning Miles
- Redemption Rates
- Partner Availability
- Routing Rules

Award-winning employer

Mediacorp Canada

- One of Canada's top employers for young people by Mediacorp Canada Inc.

Excellence Canada

- Gold Level certification for Mental Health at Work from Excellence Canada

Montréal's Top Employers Awards

- One of Montréal's top employers for the 11th consecutive year

Achievers

- One of the Achievers 50 Most Engaged Workplaces for the 6th consecutive year

One of Canada's Best Employers 2023 by *Forbes* for the 9th consecutive year

Winner of 2023 HRD Innovative HR Teams Award for Forward-Thinking HR Programs

Best Global Mental Health Programme from *InsideOut Awards*

In 2024, we held our biennial Investor Day outlining our long-term plans and announcing our 2028 key financial targets and 2030 aspirations. These long-term strategies are guided by Air Canada's corporate strategy framework, Rise Higher.

Rise Higher aims to elevate everything about our business — domestically and internationally. Rise Higher is centred around revenue enhancement and cost transformation, leveraging our international network, customer engagement and culture change. Our activities and goals align with our four priorities: Fund Our Future, Reach New Frontiers, Elevate Our Customers and Lift Each Other Up.

Fund Our Future

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

Reach New Frontiers

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

Elevate our Customers

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

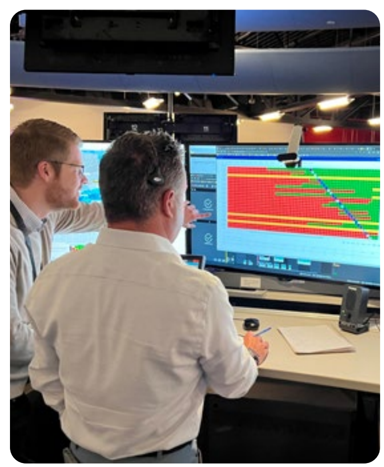
Lift Each Other Up

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

Fund our future

Fleet

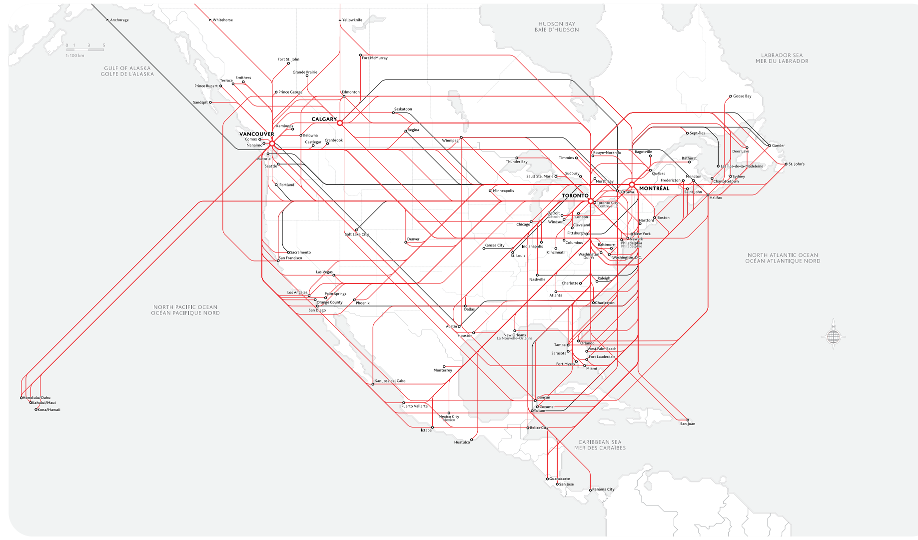
- We continued to renew and simplify our fleet, adding more fuel-efficient aircraft and making our cost structure more efficient. By the end of 2024, we had 212 aircraft in the Air Canada mainline operating fleet (i.e., 90 wide-bodies (70 Boeing, 20 Airbus, six Boeing 767 freighters), 122 narrow-bodies (41 Boeing and 81 Airbus narrow-bodies)). Air Canada Rouge had an operating fleet of 37 Airbus narrow-body aircraft, and the Air Canada Express fleet consisted of 105 aircraft: 35 Mitsubishi regional jets, 45 De Havilland Dash-8 turboprop aircraft and 25 Embraer 175 aircraft.
- Air Canada ordered five additional A220s, bringing firm orders to 65. We also have purchase options for 10 additional Boeing 737 MAX aircraft and entered into lease agreements for 12 additional Boeing 737 MAX 8 aircraft that are scheduled to enter the operating fleet in 2025 and 2026. These aircraft will help support Air Canada's short-term capacity requirements and long-term fleet planning.
- Air Canada announced in 2023 that we are acquiring 18 Boeing 787-10 aircraft, with deliveries scheduled to begin in 2026. We are acquiring 30 extra-long-range A321XLRs, with deliveries scheduled to begin in the first quarter of 2026, and the final aircraft scheduled to arrive in 2029. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.



Technology

- We launched an on-time performance (OTP) schedule optimizer tool that uses simulations and machine learning to evaluate potential network schedules, predicting at high and low levels its expected OTP. The tool highlights stress points in a given schedule, allowing for pre-emptive action by a change in the schedule months before it operates, in the aircraft rotation or in the operational execution. This results in improved overall OTP.
- We further evolved Air Canada's digital experience with the expansion of our digital identification program as a boarding option for almost all domestic flights at Vancouver International Airport (YVR) following a successful pilot project on select flights. The digital ID technology is conveniently available on the Air Canada app and allows for fast boarding while securely confirming passenger identification.
- We upgraded our airline operations control system with NetLine/Ops++, an AI-driven cloud-hosted platform that helps streamline and improve airline operations through real-time data analysis.
- We launched an AirTag and Find My app partnership with Apple.
- We broadened baggage tracking options in our mobile app to help customers easily follow their items on connecting Star Alliance flights.

Reach new frontiers



Expanded network

Air Canada operated 1,032 average daily flights, against 1,025 in 2023, to 188 direct destinations on six continents. We carried over 47 million passengers compared to about 46 million in 2023. In 2024, our total operated capacity, measured in available seat miles, increased by 5 per cent from 2023. With 104.38 billion available seat miles in 2024, this remained below 2019 levels (112.81 billion ASMs).

Asia

We introduced new seasonal routes, enabling customers to explore and experience a broader range of destinations like our new four-times-weekly, year-round Pacific route from Vancouver to Singapore. The only non-stop flight linking Canada and Singapore is complemented by connections across North America via Vancouver and to Southeast Asia, Southern India and Western Australia. The route, nearly 13,000 kilometres long, is Air Canada's longest flight measured by distance.

In addition, we increased capacity to Hong Kong, Osaka and Seoul. We resumed seasonal service to Auckland from Vancouver, operating four times weekly between December and March.

On the East Coast we began seasonal service from Toronto to Osaka and increased capacity to Tokyo, while from Montréal, Air Canada began seasonal service to Seoul, complementing enhanced capacity to Tokyo.

We also resumed our daily non-stop services between Canada and Beijing and are increasing our flights between Canada and Shanghai, both from Vancouver, reflecting the importance of these markets in Air Canada's global network. We announced four-times-weekly, year-round service between Vancouver and Manila, beginning in the spring of 2025.

North America

In North America, new routes were offered from Toronto, Montréal and Québec to Tulum, from Toronto to Charleston and from Montréal to St. Louis, Austin and New Orleans. Within Canada, Ottawa-Calgary and Halifax-Vancouver flights resumed, including frequency or capacity increases, between Toronto and Saskatoon, Regina, Victoria, Sydney and Gander, as well as between Montréal and Regina, Saskatoon, Victoria, Edmonton, Moncton, Fredericton and Deer Lake.

Europe and India

From Montréal and Toronto, Air Canada launched new non-stop routes to Stockholm and increased capacity to Greece, Italy and Spain. From Montréal, we also launched year-round service to Madrid. Air Canada significantly expanded its service to India for winter 2024-25 and began offering the only non-stop Canada-Mumbai route, operating four times weekly from Toronto. The connectivity from Western Canada to India increased with new daily seasonal Calgary-Delhi flights via London Heathrow and daily Montréal-Delhi flights.

Future

Our strategic expansion of our network within our Pacific hub was bolstered with the launch of new transborder routes between Vancouver and Tampa, Raleigh and Nashville beginning in 2025. Additionally, more capacity will be added between Vancouver and Austin, Denver and Miami in 2025, improving the connection with Air Canada's international network and supporting our sixth freedom traffic strategy.

We expanded intermodality in Europe and Asia, supporting current and future connectivity with other modes of transport.

Air Canada Cargo

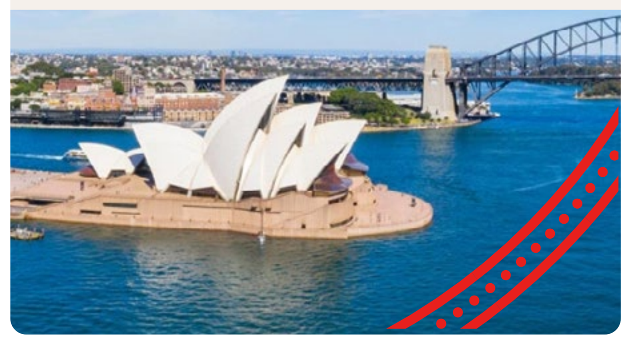
REVENUE
$991M
vs. $924M in 2023

FREIGHTERS IN SERVICE
6

Added freighter service to Chicago, connecting Air Canada Cargo's global hub in Toronto with its self-handled warehouse operation in the U.S. city.

Air Canada Vacations

Launched new guided tour packages to Asia, Australia, Colombia, Dubai, India and New Zealand

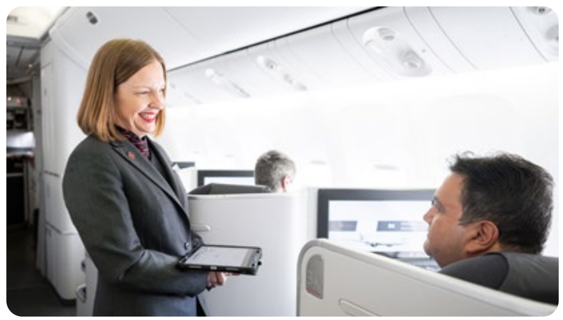


Elevate our customers

Aeroplan

Air Canada's award-winning, premier travel loyalty program enables members to accumulate points through travel on Air Canada as well as through the purchase of products and services from participating partners and suppliers. Members can redeem Aeroplan points for various travel, merchandise, gift cards and other rewards, provided directly by participating partners or made available through Aeroplan's suppliers. It recognizes Aeroplan Members with a range of priority travel services and membership benefits. In 2024, Aeroplan:

- Marked its 40th anniversary by offering 40 prizes of one million points and exclusive offers to save and earn big on flights, hotels and everyday purchases.
- Celebrated its 10th anniversary partnership with TD.
- Launched an expanded partnership with Marriott Bonvoy, offering status match and two-way currency transfer, providing elevated value and enhanced benefits to travellers.
- Expanded redemption opportunities by adding over 2,000 new hotel properties to HotelSavers
- Partnered with Manulife, enabling members to link their Aeroplan account with their Manulife group benefits digital account to start earning points for completing health programs and initiatives within the Manulife digital experience.
- Increased its active membership base to more than nine million



Service excellence and product offerings

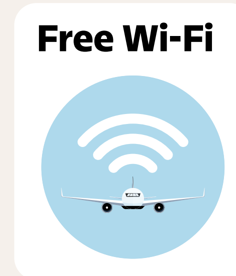
With technology enhancements, strengthened employee training programs and customer engagement through surveys, focus groups and other means, we targeted service excellence and product offerings to elevate the customer experience and improve our operational reliability.

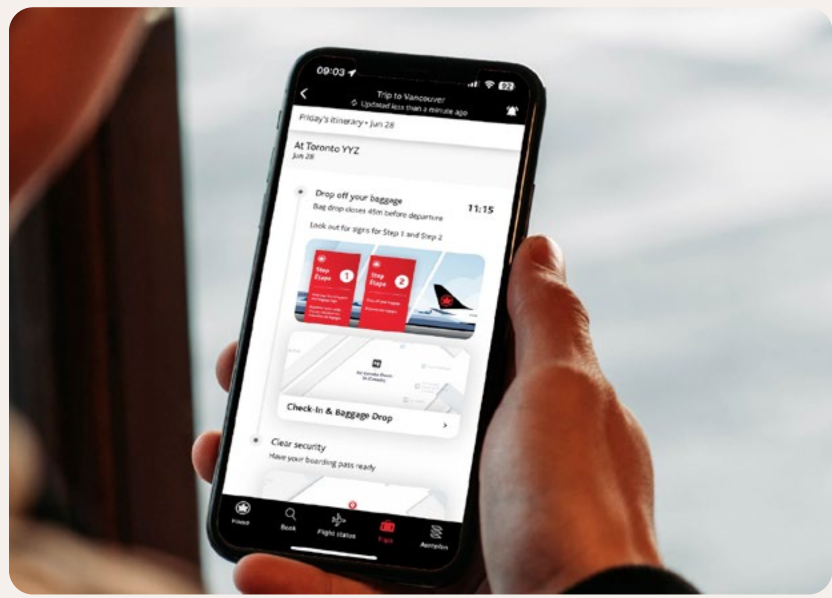
In 2024, Air Canada:

- Announced a comprehensive upgrade of its award-winning menus for all customers, with 100+ new rotating seasonal recipes showcasing bigger, bolder flavours alongside new snacks and beverages.
- Launched complimentary snacks on all flights and expanded the selection of complimentary beer and wine, plus $5 spirits, to flights within Canada and the U.S.

- Introduced new sports channels to live TV service.
- Launched musical travel guides on Air Canada's *enRoute* website and on Spotify, highlighting the music that artists Charlotte Cardin, Alexandra Stréliski and Sarahmée listen to while visiting three European cities: Amsterdam, Barcelona and Paris.

- Announced complimentary Wi-Fi service, sponsored by Bell, for Aeroplan Members beginning in May 2025 for flights within North American and sun markets.
- Expanded its customer bag and mobility aid tracking feature to U.S. flights.
- Extended its carry-on baggage enhancements to customers checking in via the Air Canada web check-in page.
- Introduced the Global Proactive Customer Care team to take prompt and practical action to deliver a seamless travel experience and recover customer journeys in the moment.
- Partnered with the Greater Toronto Airports Authority and Power Stow to install a new piece of equipment at Toronto Pearson to enhance the efficiency of our baggage handling.
- Unveiled its 2024 Top 10 Best New Restaurants in Canada, shining a spotlight on Canada's culinary scene.
- Advanced self-service options for disrupted customers with pilot projects that include notifications for meal vouchers and/or hotel/transportation arrangements once a rebooking is triggered for eligible customers.





Safeguarding your information

Safety First, Always, extends to privacy and cybersecurity. Privacy and information security require ongoing care and attention for a business of our scale and complexity. We are committed to protecting our customers' and employees' personal information and are subject to an expanding range of obligations as new privacy and data protection laws are enacted in Canada and around the world.
Air Canada maintains privacy policies that describe how we collect, use, keep and share personal information as well as the rights of individuals over that information. Air Canada's Privacy Office provides guidance on projects involving personal information and ensures compliance with privacy and data protection laws.

We focus on cybersecurity and safeguarding our systems, information and ability to operate. We have developed a cybersecurity framework and continually seek to advance privacy maturity and cybersecurity resilience. Using our cybersecurity framework, we proactively manage risk, allocate resources effectively and enhance the overall security posture to prioritize risk mitigation efforts and adjust security strategies. Our investments in security programs include technology, processes, resourcing, training, disaster recovery and regular testing and benchmarking.

Our cybersecurity investments target areas of advancement so that we stay ahead of evolving and growing threats including from hackers, organized criminals and state-sponsored actors. Using best practices and mature standards, we integrate cybersecurity requirements into technology projects to help ensure a stable and secure baseline of systems, processes and training. These requirements encompass all dimensions of cybersecurity resilience including the ability to identify, protect, detect, respond and recover. We are also focused on ensuring that suppliers and other third parties we deal with have effective cybersecurity and privacy controls that are aligned with our policies and standards.

Lift each other up

Safety First, Always

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

We support and promote effective employee training as well as the continued development and integration of safety data analytics and artificial intelligence into our Safety Management System (SMS); continually assess and manage safety risks associated with the introduction of new equipment, new routes and new programs or projects; and reinforce and promote safety reporting, protecting safety critical information in order to inform its decisions going forward.

Our Occupational Health and Safety (OHS) program is designed to protect employees from occupational hazards and to minimize risks to their health and well-being. Through our program, we establish procedures for dealing with workplace hazards and for meeting our obligations under applicable laws and regulations.

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

Employee wellness and Unlock the Best in You (UBY)

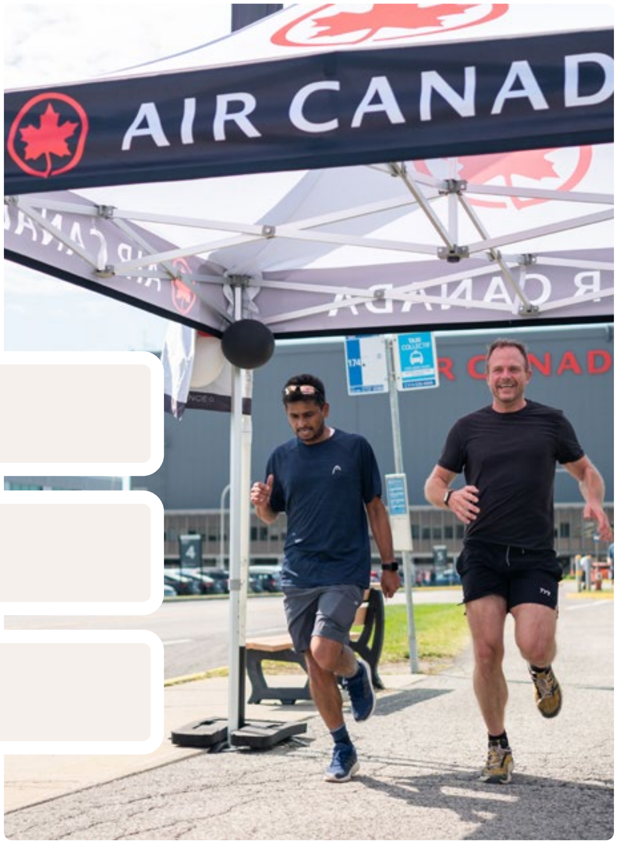
Unlock the Best in You (UBY) is Air Canada's unique award-winning well-being program that offers personalized programs to employees and equips them with resources, tools and expert advice on health and wellness; mental health awareness; financial well-being and attendance support.

UBY's wellness platform empowers and educates employees on topics like fitness, food, nutrition and general physical health and well-being. In 2024, more than 83 per cent of employees used the UBY portal.

Highlights of UBY's well-being resources and initiatives for 2024 include:

- Growing its online community to over 32,000 unique visitors. Employees were actively engaged on internal social media channels by posting daily photos and videos and by sharing their wellness progress with other members.
- Expanding its ambassador program to 234 ambassadors, strengthening our well-being community.
- Launching several campaigns and webinars featuring experts on topics such as caregiving, parenting, self-care, self-acceptance, menopause, men's health, adapting to change, managing anxiety, conflict management and resolution in the workplace.
- Opening a UBY Resources Centre in Vancouver and a serenity room in Montréal to offer employees an accessible and quiet space to decompress, reflect, meditate or pray. This is in addition to three serenity rooms at Air Canada locations in Ontario.
- Promoting a healthy lifestyle to meet a daily step goal with "Running the Race to Unlock the Best in You" challenge, with 504 employees participated in the first-ever UBY 5K run.

>5,150 UBY Wellness Centres members



234 UBY ambassadors

4,750 UBY Wellness Days attendants

504 UBY Running Club members

Representation and inclusion

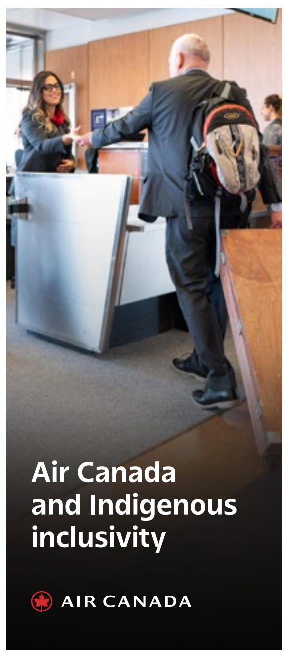
Air Canada's representative and inclusive workforce is a strength that helps attract and retain the best available global talent as our many thousands of colleagues deliver our services to more than 47 million passengers. We work collaboratively to nurture an inclusive work environment, making our employees feel welcome, providing a safe working environment for them to express their identities and thrive in helping us rise higher and demonstrating our appreciation for their contributions. Air Canada is proud of the fact that customers and stakeholders can see themselves and their backgrounds reflected in our employees around the world. We believe this is a fundamental aspect of our business operations, in which people are at the centre of everything we do.

We further strengthened our inclusion initiatives in 2024, including our structural pillars: DEI Executive Council, DEI Steering Committee, Employee Resource Groups (ERG) and DEI Champions. We held regular meetings with members of these pillars to ensure accountability.

We are a merit-based employer and do not discriminate in recruiting, hiring, training, performance management or promoting on any basis protected by law. We are subject to Canadian laws relating to equitable compensation practices and "designated group" disclosures and elimination of employment barriers for designated groups. We monitor our initiatives, practices, policies, and goals as appropriate to ensure compliance. Our approach with respect to the representation and inclusion of "designated" and other underrepresented groups accordingly reflects careful determinations, seeking to implement the ways to promote compliance and support our colleagues across Canada and around the world.

Air Canada follows a holistic framework to embed and foster an intersectional approach within our strategy called CARE: Community outreach, Accountability, Representation, Engagement and belonging. By leveraging CARE in 2024, we met aspirational goals and strengthened our efforts to continue delivering on our commitments:

LEARN MORE Indigenous Sacred and Ceremonial Items Policy



Community outreach

Air Canada's goal to attract, engage and retain from the broadest ranges of talent pools are supported by the education of underrepresented youth, promotion of careers in aviation through its AC Aviation Spark program and championing of underrepresented groups that wish to pursue a career in aviation through Air Canada scholarships and key partnerships via the AC Take Off program. We also aim to create a more inclusive aviation sector by working with key aviation community partners and attending events that target underrepresented groups: women in traditionally male dominated aviation roles; Black and visible minority candidates and persons with disabilities and Indigenous youth candidates.

Accountability

Air Canada recognizes it must earn the trust of all internal and external stakeholders involved in work concerning representation and inclusion within our company. In 2024, we emphasized training and sensitization at various levels through seminars and e-learning methods and developed tools to reinforce the content of seminars and trainings. We held Listening Circles with employees to understand areas of interest about the Indigenous experience and ways in which we can support reconciliation, and we celebrated all our passengers and ensured our services and products reflect our entire customer base.

Representation

Air Canada explores innovative ways to reach and attract the broadest ranges of talent pools. In 2024, we attended 15 career fairs and collaborated with several community organizations targeting underrepresented groups. In relation to supporting internal talent, in 2024, Air Canada launched a mentoring program that connected senior leaders with employees for growth and development support, with a focus on underrepresented groups.

Engagement and belonging

Air Canada recognizes the intersection between wellness and identity. In 2024, our six ERGs organized 55 events with an identity-driven lens aimed at raising awareness, fostering connections, providing professional development and supporting employee wellness. We also believe that effective communication and engagement is crucial in implementing our strategy and leading cultural changes within an organization.

Accessibility

Air Canada is committed to being a leader in accessible travel and employment and investing in accessibility. Our multi-year accessibility plan reaffirms our commitment to enhancing accessibility and related services for employees and customers with disabilities. The plan outlines our 2023-26 roadmap to become a more accessible organization and contribute to Canada's objective to be barrier-free by 2040. It includes 145 initiatives identified after research, expert consultations and feedback from travellers with disabilities who took over 220 flights. We were also a key participant in drafting the "Canadian Transport Agency's Mobility Aids and Air Travel Final Report" and were one of the first airlines to waive liability limits in international treaties to pay the full cost for damaged mobility equipment.

We believe in designing our product and service offerings and employment experience with accessibility in mind and are committed to improving all aspects of employee interactions with customers with disabilities, including understanding customer experiences in air travel. In 2024, Air Canada:

- Invested more than $6 million into equipment for our Canadian airports to further our commitment to customer accessibility.
- Enhanced accessibility training for Airport employees with additional content to their annual recurrent training to ensure the delivery of customer service excellence to customers requiring accessibility support. Around 10,000 Air Canada Airport employees will receive training as part of a new annual, recurrent training program.
- Established an Accessibility Advisory Committee that will provide input from the perspective of our customers with disabilities to help guide Air Canada's path and vision on accessibility.
- Recognized Autism Acceptance Month in April to address the barriers faced by people with non-visible disabilities.
- Installed disposal containers for sharp items in Air Canada work locations, ensuring access to safe disposal methods for medical equipment.

1.4M accessibility requests received and handled (visible and non-visible disabilities)

Over 32,300 wheelchairs transported

36 Air Canada Canadian airports with Eagle Lifts

Improved onboard seating, boarding processes and equipment for customers needing transfer assistance

Improved stowage procedures and tracking for mobility aids

Integrated accessibility standards into the planning phase of new infrastructure projects

Adopted the Hidden Disabilities Sunflower program

7 full-time people, with support of 41,000 global workforce, driving accessibility improvements at Air Canada

Increased awareness and understanding of accessibility and disability through training, presentations and communications

Official and other languages

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

>20,000 hours of language training

>19,000 language tests performed

>7M words translated (vs. >6M in 2023)

Our services are offered in a variety of settings but most visibly at the airport and aboard our aircraft, carrying more than 47 million passengers on about 377,000 flights in 2024 that are split roughly evenly among flights within Canada and flights connecting Canada with the 56 countries we serve. We are one of few airline companies in the world that serve customers in English and in French on the scale we do, and we are proud to reflect Canada in that way both within and outside its borders. The diverse linguistic abilities of our public-facing employees have enabled us to designate 24 route languages other than our official languages. These designations are based on internal criteria including minimum service requirements on the relevant flights. We are dedicated to meeting our linguistic commitments. Employees may also choose to self-report the languages they speak in which case their self-assessments are recorded. Based on the testing and self-reporting data we have in respect of about 37,500 employees:

- More than 80 languages globally are spoken by our employees with some level of tested or self-reported proficiency.
- More than half of our employees, as well as of our public facing employees, can communicate with some level of tested or self-reported proficiency in both official languages.
- About 40 per cent of our employees speak at least one route language.
- The most spoken route language among our public facing employees is Spanish, with other prominent languages including Hindi, Punjabi and Mandarin.

Both official languages of Canada are used in our corporate, customer and employee communications and are commonly used in everyday interactions in many of our operations. We are committed to promoting both official languages of Canada across the country and have policies, programs, procedures and tools to help our employees learn and improve their language skills.

We care about all the communities in which we live and work, including Quebec where our Montréal head office is located. We will continue to work with all our stakeholders to see how we can meet their expectations, while honouring individual rights and our legal obligations. In 2023, we announced our voluntary registration with the *Office québécois de la langue française* under the *Charter of the French language*, and have since finalized a francisation program that has been approved by the Office and will now be implemented, reflecting our aim to contribute to the protection, promotion and reach of the French language, while complying with the *Official Languages Act* that applies to us.

Our Official Languages department has responsibility for implementing our Linguistic Action Plan and official languages initiatives. It reports on progress to executive management on a regular basis. An Official Languages Committee, composed of senior management from key functions, supports the Official Languages department by facilitating the implementation of official languages initiatives throughout our organization. A network of Official Languages Supporters helps implement initiatives at each airport and in-flight service base. A *Comité de francisation* is also in place focusing on activities in Quebec.

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

Community involvement

Air Canada's Community Partnerships program supported more than 240 organizations with 357 projects and 287 events in 2024. In addition, through its Aeroplan donation platform and other means, over 94 million points were donated to 124 charities.

The Air Canada Foundation provides financial or fundraising support to Canadian-registered charities that seek to improve children's health and well-being. Since its creation in 2012, the Air Canada Foundation has raised more than $10 million. In 2024, the Foundation:

- Supported 409 charities and donated $1.8 million across Canada.
- Donated over 2,200 airline tickets to support fundraising efforts and charitable program development.
- Raised more than $2.2 million, including a record-breaking amount of $1.4 million (net) at its 12th annual golf tournament, the Foundation's largest fundraising event.
- Provided over 370 flights to more than 129 patients to access the medical care they need away from home.
- Raised 49 million Aeroplan points for the Hospital Transportation program and donated 400 airline tickets to pediatric hospitals.
- Launched AviACTION, Air Canada's new volunteer and community engagement program, and facilitated community volunteer opportunities for more than 1,500 Air Canada employees.
- Operated eight Dreams Take Flight, for more than 900 children.

LEARN MORE [Air Canada Foundation website]

Air Canada helped welcome 50 new Canadians from 20 different countries during a citizenship ceremony at Calgary's GlobalFest.

Our climate-related initiatives

Air Canada's efforts related to greenhouse gas emissions are aimed to align with the Government of Canada's Aviation Climate Action Plan stated vision net-zero emissions by 2050, the International Air Transport Association (IATA) 2021 resolution for the global air transport industry to achieve net-zero carbon emissions by 2050 and the International Civil Aviation Organization (ICAO) member states' collective long-term global aspirational goal of net-zero carbon emissions by 2050. These ambitions were announced after the Paris Agreement and, to succeed, they will require the co-ordinated efforts of the entire airline industry (e.g., airlines, airports, air navigation service providers, manufacturers) and significant government support.

In March 2021, we announced our own ambitious plan setting out mid-term targets in support of our long-term aspirational goal of net-zero GHG emissions by 2050. Those mid-term targets are (a) 20% GHG net reductions from our air operations compared to a 2019 baseline by 2030, (b) 30% GHG net reductions from our ground operations compared to a 2019 baseline by 2030, and (c) a $50 million investment fund for new technologies such as SAF as well as new aircraft or carbon reduction and removal technologies.

Our ambitions, particularly our net reduction target for our air operations, are heavily dependent on the progress of new technologies and the availability of sufficient sustainable aviation fuels (SAF) and other renewable energies, which continue to present serious challenges. IATA estimated that SAF production volumes only accounted for 0.3% of global jet fuel production in 2024. Although Air Canada is proud of the progress it is making, we cannot achieve our ambitions alone; governments play an essential role in these efforts. Industry and other participants in our supply chain or otherwise must each play their part.

Air Canada's initiatives relating to GHG emissions build on existing value streams and activities based on four key carbon reduction pillars that are central to the advancement of our objectives and position us to leverage emerging opportunities: Fleet and operations; Innovation; SAF and renewable energy; Carbon reductions and removals.

The aviation industry includes many participants, many of which can play a meaningful role in reducing GHG emissions. Air Canada is accordingly engaged with other stakeholders in the air transport system to advance and explore opportunities. For more information, see Air Canada's 2023 TCFD summary.

Looking toward the future

20%
GHG net reductions

30%
GHG net reductions

$50M
investment fund

Our four key carbon reduction pillars

Fleet and operations

We will continue deploying more energy-efficient aircraft through our fleet renewal program. We will also continue to integrate climate-related factors in route and fleet planning. On the ground, we expect to phase out carbon-intensive ground equipment and plan on further advancing electric vehicles use and seek other electrification opportunities.

Innovation

We will, over time, evaluate the viability, safety and performance of new electric, hydrogen or hybrid propulsion technologies and will look for other innovative opportunities elsewhere in our operations.

SAF and renewable energy

To further our work on sustainable aviation fuels, we are investing in SAF and other low carbon aviation fuel (LCAF) technology development and are actively evaluating the practical applications of renewable energy sources such as renewable natural gas (RNG) and renewable electricity and energy transition measures. Air Canada firmly believes that a concrete action plan is required in Canada to establish a competitive investment climate and to capture the economic added value of SAF that is made in Canada.

Carbon reductions and removals

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

The achievement of our carbon emission-related targets and long-term aspirations reflects our current strategy and assumptions as of the reporting date, and may be revised over time to reflect progress, shifts in external conditions or changes in strategy.

Air Canada's climate initiatives build on existing value streams and activities based on these four key carbon reduction pillars:

Fleet and operations

We are proud to be building a modern and more fuel-efficient fleet. We are working on improving fuel efficiency by investing billions in state-of-the-art fuel-efficient aircraft and by adopting innovative fleet-related modifications in our wide- and narrow-body aircraft.

Over the years, we have acquired increasingly fuel-efficient aircraft including:

- 8 Boeing 787-8 and 32 787-9 Dreamliners
- 34 Airbus A220-300s
- 45 737 MAX 8s

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

Innovation

In 2022, Air Canada agreed to purchase 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace and invested US$5 million in this Swedish company. In 2023, it announced it strengthened its financial investment in Heart Aerospace with an additional US$5 million to advance the ES-30 aircraft toward type certification. The regional aircraft are expected to generate fewer GHG emissions when flying on battery power, yield significant operational savings and benefits and provide low-emission connectivity to local communities over the long term. The purchase remains subject to conditions including in relation to the design and specifications of the aircraft.

SAF and renewable energy

SAF is an important component for reducing our GHG emissions from our air operations. However, the availability of a sufficient and cost-effective supply of sustainable aviation fuels presents challenges, requiring policy intervention and investment to support development and scale. Air Canada currently sources SAF through various suppliers across the world. We are at the forefront of pivotal Canadian aviation initiatives supporting and advancing the research and commercialization of SAF within an ecosystem consisting of airlines, airports, fuel suppliers, technology providers, feedstock producers, aerospace manufacturers, academia, finance and government.

Air Canada has supported the development of SAF in Canada and has committed to investing in SAF. We have engaged with government and other stakeholders to accelerate the research, development and establishment of a SAF supply chain in Canada, including as a founding member of C-SAF, a not-for-profit organization that seeks to accelerate the commercial production and deployment of SAF in Canada.

Fleet and operations

Target: 20%
GHG net reductions

from air operations by 2030 (compared to 2019 baseline)

53% new generation aircraft in the fleet by 2030

Leave Less Travel Program

Air Canada offers corporate customers and cargo freight forwarders the opportunity to purchase Scope 3 environmental attributes associated with SAF, carbon offset credits or a combination of both related to their own business air travel or cargo shipments on Air Canada. This program is one of the many initiatives being implemented to help customers with their own environmental sustainability goals.

- In 2024, Air Canada purchased around 101,000 litres of Canada's first batch of low carbon aviation fuel, produced by Parkland at its Burnaby refinery, marking a major step toward the production of a Canadian-made solutions that can help lower aviation sector emissions, foster economic growth and support low-carbon ambitions.
- Air Canada procured nearly 78 million litres of Neste MY Sustainable Aviation Fuel™.
- Air Canada purchased about 12 million US gallons of SAF in 2024 compared to about 1.5 million US gallons[1] of SAF in 2023. We estimate the need for SAF to be roughly 25 million US gallons in 2025.
- RNG in our Montréal-owned facilities was about 15 per cent of overall volumes in 2024, and we also started adding volumes in our owned facilities in Vancouver. In 2023, we began purchasing renewable energy certificates for all electricity consumption across Canada (except Quebec, B.C. and Manitoba, as their respective electricity carbon intensity is already low).

Carbon reductions and removals

Air Canada engages with its customers on its booking website through its voluntary program that allows travellers to purchase carbon offset credits, a service provided by Chooose, in an amount that is equivalent to the estimated GHG impact of their flight(s).

When customers book a flight using Aeroplan points or a combination of points and cash, Air Canada offsets its estimated Scope 1 GHG emissions for the customer's flight using carbon offset credits provided by Chooose. The total carbon offset credits retired are equivalent to an estimate of the GHG emissions associated with the portion of the itinerary operated by Air Canada (including Air Canada Rouge and Air Canada Express), once the flight is completed. These projects support many climate initiatives including forest management in Canada and mangrove restoration in Pakistan. All projects offer strong co-benefits and align with UN Sustainable Development Goals (SDG). Air Canada and Chooose jointly select the certified projects after a thorough due-diligence review process. The projects issuing these carbon offset credits are certified to internationally recognized carbon certification standards that set requirements for the design and implementation of projects such as the Verified Carbon Standard, Gold Standard, ACR (formerly the American Carbon Registry) and BC Carbon Registry. Independent, third-party verifications are performed by accredited verifiers and follow best practices and specific verification criteria indicated for each standard. standard.

Air Canada purchased more than 854,500 tCO_2e from nine carbon offset projects around the world. In collaboration with Chooose, our carbon offset project portfolio grows with four new projects:

- Quinte Forestry
- Doyon Native Community Forest
- Refrigerant Management Canada ODS Destruction
- Microfinance for Clean Energy Product Line

1) Corrected to indicate that 1.5 million US gallons were purchased in 2023 (and not 12 million US gallons as indicated in the original version of the annual report).

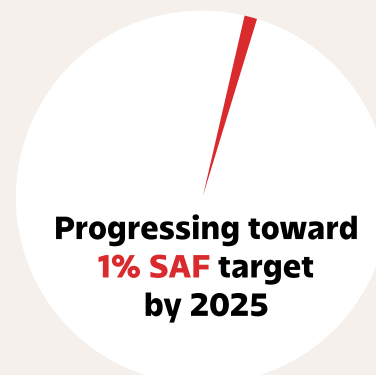
Innovation

Committed to purchase 30 ES-30 hybrid-electric regional aircraft under development by Heart Aerospace and invested US$10 million into the company

SAF and renewable energy

In 2024, Air Canada:

- Purchased roughly 101,000 litres of Canada's first batch of low carbon aviation fuel.
- Procured nearly 78 million litres of Neste MY Sustainable Aviation Fuel™.



Ground operations

Along with the significant investments we are making for our air operations, we continue to move forward with investments in our ground operations as well. The deployment of new generation electric ground equipment (e-GSE) and retirement of older equipment began in 2019. In 2024, 287 new e-GSE units were added to the fleet across Canada. We deployed Phase 1 of our ground support equipment upgrade in Montréal as part of our multi-year investment in new GSE, which includes 30 modern generation Charlatte electric baggage tractors. Additionally, we deployed another six new Power Stow belt loaders that are already showing promising results in operational efficiency and injury reduction. We also included two new container loaders, 11 new aircraft electric tractors, additional tow bars and some new support vehicles. These upgrades replace and replenish older generation diesel tractors, reducing our reliance on fossil fuels.

Our road to 2030 aims at electrifying

1

100% electrification of baggage tractors

Goal: 745 units

2

100% electrification at Canadian stations

Goal: 18 units

3

Electric cargo equipment

Goal: 16 units

4

Electric conversion of existing GSEs

Goal: 150 units

Ground operations

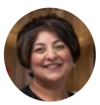
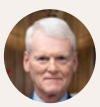
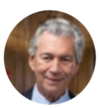
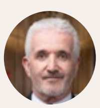
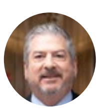
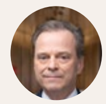
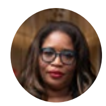
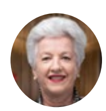
Target: 30%
GHG net reductions

from ground operations by 2030 (compared to 2019 baseline)

287 new e-GSE units added

Board of directors and committees

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

		Audit, Finance and Risk Committee	Governance and Nominating Committee	Human Resources, Compensation and Pension Committee	Safety, Health, Environment and Security
	**Vagn Sørensen** **Chair of the Board, Air Canada** Ex officio member of all committees London, U.K.				
	**Amee Chande** Corporate Director British Columbia, Canada	Member			Member
	**Christie J.B. Clark** Corporate Director Ontario, Canada	**Chair**	Member		
	**Gary A. Doer** Corporate Director Manitoba, Canada			Member	Member
	**Rob Fyfe** Corporate Director Auckland, New Zealand			Member	**Chair**
	**Michael M. Green** Chief Executive Officer and Managing Director, Tenex Capital Management Florida, U.S.			Member	Member
	**Jean Marc Huot** Partner, Stikeman Elliott LLP Quebec, Canada		**Chair**		Member
	**Claudette McGowan** Chief Executive Officer, Protexxa Inc. Ontario, Canada	Member		Member	
	**Madeleine Paquin** Corporate Director Quebec, Canada		Member		Member
	**Michael Rousseau** **President and Chief Executive Officer, Air Canada** Ex officio member of all committees Quebec, Canada				
	**Kathleen Taylor** Corporate Director Ontario, Canada	Member	Member	**Chair**	
	**Annette Verschuren** Chair and Chief Executive Officer, NRStor Inc. Ontario, Canada	Member	Member		

Executive officers

Michael Rousseau
President and
Chief Executive Officer

Marc Barbeau
Executive Vice President,
Chief Legal Officer and
Corporate Secretary

John Di Bert
Executive Vice President and
Chief Financial Officer

Mark Galardo
Executive Vice President and
Chief Commercial Officer and
President, Cargo

Craig Landry
Executive Vice President and
Chief Innovation Officer and
President of Aeroplan

Mark Nasr
Executive Vice President and
Chief Operations Officer

Arielle Meloul-Wechsler
Executive Vice President,
Chief Human Resources Officer
and Public Affairs

Kevin O'Connor
Senior Vice President,
Global Airports and Operations
Control

Murray Strom
Senior Vice President,
Flight Operations and Maintenance

Investor and shareholder information

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

	LOW	HIGH	VOLUME
First quarter	$17.37	$19.80	140,554,093
Second quarter	$16.62	$20.47	135,284,024
Third quarter	$14.47	$18.07	136,935,458
Fourth quarter	$15.98	$26.18	241,551,573
Full year	**$14.47**	**$26.18**	**654,325,148**

Restrictions on voting securities

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

For further information, see section 10 of Air Canada's 2024 Annual Information Form dated March 28, 2025.

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INVESTOR RELATIONS

Telephone: +1 514-422-7849
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Air Canada is listed on the Toronto Stock Exchange and governed by its rules.

TRANSFER AGENT AND REGISTRAR

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(Canada and United States)
+1 416-682-3860 (other countries)
Email: shareholderinquiries@tmx.com
Web: tsxtrust.com

2024 **Management's Discussion** and **Analysis of Results of Operations** and **Financial Condition**

February 13, 2025

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)	Fourth Quarter			Full Year		
Financial Performance Metrics	**2024**	**2023**	**$ Change**	**2024**	**2023**	**$ Change**
Operating revenues	5,404	5,175	229	22,255	21,833	422
Operating income (loss)	(254)	79	(333)	1,263	2,279	(1,016)
Operating margin [1] (%)	(4.7)	1.5	(6.2) pp [8]	5.7	10.4	(4.7) pp
Adjusted EBITDA [2]	696	521	175	3,586	3,982	(396)
Adjusted EBITDA margin [2] (%)	12.9	10.1	2.8 pp	16.1	18.2	(2.1) pp
Income (loss) before income taxes	(721)	122	(843)	515	2,212	(1,697)
Net income (loss)	(644)	184	(828)	1,720	2,276	(556)
Adjusted pre-tax income (loss) [2]	135	(47)	182	1,397	1,693	(296)
Adjusted net income (loss) [2]	93	(44)	137	1,335	1,713	(378)
Total liquidity [3]	9,154	10,290	(1,136)	9,154	10,290	(1,136)
Net cash flows from operating activities	677	985	(308)	3,930	4,320	(390)
Free cash flow [2]	(495)	669	(1,164)	1,294	2,756	(1,462)
Net debt [2]	4,918	4,567	351	4,918	4,567	351
Diluted earnings (loss) per share	(1.81)	0.41	(2.22)	4.72	5.96	(1.24)
Adjusted earnings (loss) per share [2]	0.25	(0.12)	0.37	3.55	4.56	(1.01)
Operating Statistics [4]	**2024**	**2023**	**Change %**	**2024**	**2023**	**Change %**
Revenue passenger miles (RPMs) (millions)	20,573	20,405	0.8	88,643	85,802	3.3
Available seat miles (ASMs) (millions)	24,949	24,439	2.1	104,381	99,012	5.4
Passenger load factor %	82.5%	83.5%	(1.0) pp	85.0%	86.7%	(1.7) pp
Passenger revenue per RPM (Yield) (cents)	23.0	22.3	3.0	22.3	22.6	(1.0)
Passenger revenue per ASM (PRASM) (cents)	18.9	18.6	1.7	18.9	19.6	(3.4)
Operating revenue per ASM (cents)	21.7	21.2	2.3	21.3	22.1	(3.3)
Operating expense per ASM (CASM) (cents)	22.7	20.9	8.8	20.1	19.8	1.8
Adjusted CASM (cents) [2]	15.1	14.2	5.7	13.8	13.5	2.3
Average number of full-time-equivalent (FTE) employees (thousands) [5]	37.1	36.4	1.9	37.1	35.7	4.0
Aircraft in operating fleet at period-end	354	361	(1.9)	354	361	(1.9)
Seats dispatched (thousands)	13,796	13,636	1.2	56,745	54,026	5.0
Aircraft frequencies (thousands)	94.5	93.4	1.2	387.9	373.1	4.0
Average stage length (miles) [6]	1,808	1,792	0.9	1,839	1,833	0.4
Fuel cost per litre (cents)	94.6	117.6	(19.6)	100.6	111.6	(9.9)
Fuel litres (thousands)	1,225,281	1,178,926	3.9	5,082,636	4,751,692	7.0
Revenue passengers carried (thousands) [7]	10,929	10,899	0.3	45,886	44,790	2.4

(1) Operating margin is a supplementary financial measure and is defined as operating income (loss) as a percentage of operating revenues.

(2) Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.

(3) Total liquidity refers to the sum of cash, cash equivalents, short and long-term investments, and the amounts available under Air Canada's credit facilities. Total liquidity, as at December 31, 2024, of $9,154 million consisted of $7,752 million in cash, cash equivalents, short- and long-term investments and $1,402 million available under undrawn credit facilities. As at December 31, 2023, total liquidity of $10,290 million consisted of $9,295 million in cash, cash equivalents, short- and long-term investments and $995 million available under undrawn credit facilities. These amounts also include funds ($346 million as at December 31, 2024 and $393 million as at December 31, 2023) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.

(4) Except for the reference to average number of full-time equivalent (FTE) employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.

(5) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.

(6) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.

(7) Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.

(8) "pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.

2. Introduction and key assumptions

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), Air Canada refers, as the context may require, to Air Canada alone or Air Canada and one or more of its subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada Rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge), or to one or more of such subsidiaries.

This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the fourth quarter and full year 2024. This MD&A should be read in conjunction with Air Canada's 2024 annual audited consolidated financial statements and notes dated February 13, 2025. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IFRS Accounting Standards), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 21 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of February 13, 2025.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk Factors" of this MD&A. Air Canada issued a news release dated February 13, 2025 reporting on its results for the fourth quarter and full year 2024. This news release is available on Air Canada's website at aircanada.com and on SEDAR+ website at www.sedarplus.ca. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at www.sedarplus.ca.

Caution regarding forward-looking information

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

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

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

Air Canada has and continues to establish targets, make commitments and assess the impact regarding climate change, and related initiatives, plans and proposals that Air Canada and other stakeholders (including government, regulatory and other bodies) are pursuing in relation to climate change and carbon emissions. The achievement of our commitments and targets depends on many factors, including the combined actions of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies.

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

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

Key assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2025. Air Canada also assumes that the Canadian dollar will trade, on average, at C$1.40 per U.S. dollar for the full year 2025 and that the price of jet fuel will average C$0.95 per litre for the full year 2025.

Intellectual property

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

Incorporation of other information

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

3. About Air Canada

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

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

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

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

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

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

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

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4. Overview

During 2024, Air Canada saw supply and demand for air travel stabilize, leading to year-over-year declines in load factors and yields, most notably in international markets during the second and third quarters of 2024. Coming out of the COVID-19 pandemic, 2023 had been characterized by a very fast and strong increase in demand at a time when aircraft availability was still limited, leading to exceptionally high load factors and yields.

During 2024, Air Canada continued to execute on its strategic priorities, leveraging the solid foundation it has built over the past several years to continue to restore and rebuild toward its ambitions. Highlights for 2024 included that Air Canada:

- Reached record revenues of $22,255 million, a two per cent increase from 2023.
- Operated capacity increased five per cent, with significant growth in the Pacific. The capacity growth was in line with the expected capacity increase communicated by news release on December 17, 2024.
- Improved operational performance, including an 8-percentage-point increase in on-time performance.
- Concluded a four-year collective agreement with the Air Line Pilots Association (ALPA), which was ratified by the membership in October 2024.
- Repurchased over 20 million shares under its normal course issuer program.

With the ratification of the collective agreement with ALPA, which is effective as of September 30, 2023, Air Canada recorded a one-time pension past service cost of $490 million in wages, salaries and benefits expense in the fourth quarter of 2024 as a result of certain pension plan amendments made in conjunction with the collective agreement.

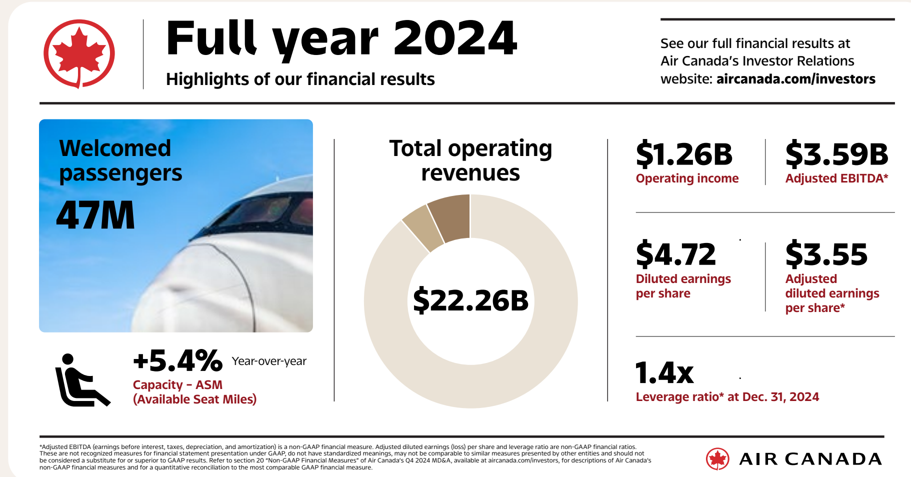
The following is an overview of Air Canada's results of operations and financial position for the fourth quarter and full year 2024 compared to the same periods in 2023. Refer to sections 5 "Results of Operations 2024 versus 2023" and 6 "Results of Operations Q4 2024 versus Q4 2023" for additional information on factors impacting the year-over-year performance.

Fourth quarter 2024 financial summary

- Record operating revenues of $5,404 million increased $229 million or four per cent on an operated capacity growth of two per cent year over year.
- Operating expenses of $5,658 million increased $562 million or 11 per cent. The increase was largely due to the one-time pension past service cost of $490 million recorded in the fourth quarter of 2024 discussed above and to higher labour and maintenance costs.
- Operating loss of $254 million, which included the one-time pension past service cost of $490 million, compared to an operating income of $79 million in the same period in 2023.
- Adjusted EBITDA of $696 million, with an adjusted EBITDA margin of 12.9 per cent, increased $175 million and 2.8 percentage points, respectively.
- Adjusted pre-tax income of $135 million, increased $182 million.
- Net loss of $644 million and diluted loss per share of $1.81 compared to a net income of $184 million and diluted earnings per share of $0.41.
- Adjusted net income of $93 million and adjusted earnings per diluted share of $0.25 compared to an adjusted net loss of $44 million and adjusted loss per diluted share of $0.12.
- Adjusted CASM of 15.05 cents compared to 14.25 cents, an increase of 5.7 per cent.
- Net cash flows from operating activities of $677 million decreased $308 million.
- Negative free cash flow of $495 million decreased $1,164 million.

Full year 2024 financial summary

- Operating revenues of $22,255 million increased $422 million or two per cent on an operated capacity growth of five per cent year over year.
- Operating expenses of $20,992 million increased $1,438 million or seven per cent. The increase was largely due to higher costs in most line items due to capacity growth, higher labour, maintenance and IT expenses and the one-time $490 million pension past service cost recorded in the fourth quarter of 2024.
- Operating income of $1,263 million, with an operating margin of 5.7 per cent, decreased $1,016 million and 4.7 percentage points, respectively.
- Adjusted EBITDA of $3,586 million, with an adjusted EBITDA margin of 16.1 per cent, decreased $396 million and 2.1 percentage points, respectively. This result was above the expected adjusted EBITDA of approximately $3.5 billion communicated by news release on December 17, 2024.
- Adjusted pre-tax income of $1,397 million, decreased $296 million.
- Net income of $1,720 million and diluted earnings per share of $4.72 compared to a net income of $2,276 million and diluted earnings per share of $5.96 in 2023. Net income in 2024 included the recognition of $1,154 million of previously unrecognized deferred income tax assets.
- Adjusted net income of $1,335 million and adjusted earnings per diluted share of $3.55 compared to an adjusted net income of $1,713 million and adjusted earnings per diluted share of $4.56.
- Adjusted CASM of 13.80 cents compared to 13.49 cents, an increase of 2.3 per cent. This result was in line with the expected growth in adjusted CASM communicated by news release on December 17, 2024.
- Net cash flows from operating activities of $3,930 million decreased $390 million.
- Free cash flow of $1,294 million decreased $1,462 million.
- Net debt-to-adjusted EBITDA ratio was 1.4 as at December 31, 2024 compared to 1.1 as at December 31, 2023.



5. Results of operations - 2024 versus 2023

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

(Canadian dollars in millions, except where indicated)	Full Year			
	2024	**2023**	**$ Change**	**% Change** [1]
Operating revenues				
Passenger	$ 19,760	$ 19,403	357	2
Cargo	991	924	67	7
Other	1,504	1,506	(2)	-
Total operating revenues	**22,255**	**21,833**	**422**	**2**
Operating expenses				
Aircraft fuel	5,118	5,318	(200)	(4)
Wages, salaries and benefits	4,880	3,955	925	23
Depreciation and amortization	1,799	1,703	96	6
Airport and navigation fees	1,487	1,418	69	5
Aircraft maintenance	1,237	1,083	154	14
Sales and distribution costs	1,085	1,097	(12)	(1)
Capacity purchase fees	860	858	2	-
Ground package costs	782	720	62	9
Communications and information technology	649	555	94	17
Catering and onboard services	637	628	9	1
Other	2,458	2,219	239	11
Total operating expenses	**20,992**	**19,554**	**1,438**	**7**
Operating income	**1,263**	**2,279**	**(1,016)**	
Non-operating income (expense)				
Foreign exchange gain (loss)	(400)	389	(789)	
Interest income	431	416	15	
Interest expense	(763)	(944)	181	
Interest capitalized	32	14	18	
Financial instruments recorded at fair value	28	115	(87)	
Loss on debt settlements and modifications	(8)	(10)	2	
Other	(68)	(47)	(21)	
Total non-operating expense	**(748)**	**(67)**	**(681)**	
Income before income taxes	**515**	**2,212**	**(1,697)**	
Income tax recovery	1,205	64	1,141	
Net income	**$ 1,720**	**$ 2,276**	**$ (556)**	
Basic earnings per share	**$ 4.81**	**$ 6.35**	**$ (1.54)**	
Diluted earnings per share	**$ 4.72**	**$ 5.96**	**$ (1.24)**	
Adjusted EBITDA [2]	**$ 3,586**	**$ 3,982**	**$ (396)**	
Adjusted pre-tax income [2]	**$ 1,397**	**$ 1,693**	**$ (296)**	
Adjusted net income [2]	**$ 1,335**	**$ 1,713**	**$ (378)**	
Adjusted earnings per share – diluted [2]	**$ 3.55**	**$ 4.56**	**$ (1.01)**	

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

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

System passenger revenues

In 2024, passenger revenues were $19,760 million, a year-over-year increase of $357 million or two per cent driven by increased traffic and capacity in the Pacific and North American markets. Year over year, system load factor and yield declined 2 percentage points and one per cent, respectively.

The main contributors for the year-over-year variance were:

- Pacific capacity increased 28 per cent year over year due to the restoration of services to Asia Pacific regions.
- The yield environment was strong in North American markets, growing one per cent and two per cent for Domestic and Transborder services, respectively.
- Demand for premium products was solid in 2024. Premium cabin revenues grew five per cent year over year, reaching 29 per cent of total revenues, a one percentage point expansion from 2023.
- Sixth freedom traffic continued to perform well, with sixth freedom revenues growing 12 per cent from 2023.

In September 2024, Air Canada concluded a four-year collective agreement with ALPA representing more than 5,200 pilots at Air Canada and Air Canada Rouge. The agreement, which is effective as of September 30, 2023, was ratified in October 2024. Leading up to the announcement of this agreement and with the possibility of labour disruptions, Air Canada introduced a flexible rebooking policy that allowed customers to change or cancel their itineraries without change or cancellation fees. The labour uncertainty resulted in an elevated number of cancellations and passengers choosing to modify their travel plans or fly with other airlines for close-in itineraries, particularly in September and to a lesser extent in the first half of October 2024, with most of the impact in the Domestic market.

Throughout 2023, the rapid growth in demand for travel, most notably internationally, and the constrained capacity environment led to exceptionally higher yields and load factors.

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

(Canadian dollars in millions)	Full Year			
	2024	2023	$ Change	% Change (1)
Canada	$ 5,255	$ 5,106	$ 149	2.9
U.S. transborder	4,275	4,123	152	3.7
Atlantic	5,754	6,049	(295)	(4.9)
Pacific	2,792	2,380	412	17.3
Other	1,684	1,745	(61)	(3.5)
System	**$ 19,760**	**$ 19,403**	**$ 357**	**1.8**

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

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

	Full Year 2024 versus Full Year 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	2.9	3.8	2.0	(1.5)	0.9	(0.8)
U.S. transborder	3.7	3.0	1.7	(1.1)	2.0	0.6
Atlantic	(4.9)	0.6	(2.5)	(2.7)	(2.4)	(5.4)
Pacific	17.3	28.0	25.2	(2.0)	(6.3)	(8.4)
Other	(3.5)	(0.2)	(1.3)	(0.9)	(2.2)	(3.3)
System	**1.8**	**5.4**	**3.3**	**(1.7)**	**(1.0)**	**(3.4)**

Domestic passenger revenues

Domestic passenger revenues increased three per cent resulting from a growth of two per cent in traffic and one per cent in yield, partially offset by lower load factor. As described above, revenues in the late third quarter and early fourth quarter of 2024 were impacted by the labour uncertainty in advance of reaching an agreement with ALPA. The full year results reflected good demand for air travel within a competitive marketplace.

U.S. transborder passenger revenues

U.S. transborder passenger revenues increased four per cent as driven by capacity growth and yield expansion versus 2023. The capacity increase was driven by new, restored and increased U.S. transborder services, supporting traffic between the U.S. and Canada and providing connection opportunities with Air Canada's international network driving Air Canada's sixth freedom traffic strategy.

Atlantic passenger revenues

Atlantic passenger revenues decreased five per cent as a result of lower traffic and lower yields year over year. This was largely the result of increased industry capacity and competitive pressures in the market, which primarily impacted the results in the second and third quarters of 2024.

Impact from the geopolitical instability in the Middle East and major events that took place in Europe during 2024 contributed to the traffic and yield pressures versus 2023.

Pacific passenger revenues

Pacific passenger revenues increased 17 per cent driven by 28 per cent more capacity year over year. The increases were driven by increased capacity due to the restoration of services to Asia Pacific regions, most notably in Japan, Korea and Hong Kong, and the launch of the Vancouver-Singapore route. The year-over-year revenue increase was limited by lower yields and load factors in the region as the traffic increase lagged the added capacity.

Other passenger revenues

Other passenger revenues declined three per cent as a result of lower capacity and traffic in South America and lower yield in the Caribbean and Central America.

Cargo revenues

In 2024, Cargo revenues of $991 million increased $67 million or seven per cent from 2023. This was the result of higher volumes of chargeable kilos and yields for belly cargo in the Pacific and freight in the Americas. The increase was partially offset by lower cargo revenues in the Atlantic primarily due to lower yields.

At the end of 2024, Air Canada operated six Boeing 767 freighter aircraft compared to seven at the end of 2023.

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

	Full Year			
(Canadian dollars in millions)	2024	2023	$ Change	% Change [1]
Canada	$ 106	$ 94	$ 12	12.6
U.S. transborder	58	45	13	26.9
Atlantic	375	432	(57)	(13.2)
Pacific	311	222	89	40.5
Other	141	131	10	7.9
System	**$ 991**	**$ 924**	**$ 67**	**7.3**

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

Other revenues

In 2024, other revenues of $1,504 million were essentially flat year over year. Higher ground package revenues at Air Canada Vacations were offset by lower buy on-board revenues, miscellaneous passenger fees and non-air revenues related to the Aeroplan program.

Operating expenses

In 2024, operating expenses increased seven per cent. This was a result of cost increases in nearly all line items mainly due to the year-over-year capacity increase, a one-time pension past service cost of $490 million resulting from the ratification of the new ALPA collective agreement, and higher labour and aircraft maintenance expenses. In addition, Air Canada recorded a $34 million charge in the third quarter of 2024 reflecting the estimated costs related to contractual lease obligations and a one-time operating expense of $20 million in the first quarter of 2024 related to the removal of two Boeing 767 freighters from the 2024-2025 fleet plan.

The operating expense increase was limited by lower aircraft fuel expense year over year and by certain contract-related adjustments that were recorded in the third quarter of 2024.

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

Aircraft fuel

Aircraft fuel expense declined four per cent driven by a 10 per cent decrease in jet fuel prices year over year, net of an unfavourable foreign exchange variance. The decline was partially offset by higher volume of litres used due to the year-over-year increase in capacity and a $54 million net loss from the settlement of jet fuel hedges ($51 million gain in 2023).

Wages, salaries and benefits

Wages, salaries and benefits expense increased 23 per cent. The increase reflected the one-time pension past service cost of $490 million as a result of pension plan amendments made in conjunction with the ALPA collective agreement, higher average salaries year over year and the increased number of employees required to support the capacity growth.

Aircraft maintenance

Aircraft maintenance expense increased 14 per cent, net of a favourable contract-related adjustment recorded in the third quarter of 2024. The increase was driven by a greater number of scheduled engine and airframe maintenance events, higher average prices for maintenance events and increased maintenance activity to support higher levels of flying. To a lesser extent, an increase in maintenance provisions for leased aircraft that joined the fleet in 2024 contributed to the year-over-year increase.

Depreciation and amortization

Depreciation and amortization expense increased six per cent as a result of a larger number of capitalized maintenance events on various fleet types and the addition of various aircraft to the operating fleet in 2024. The increase was partially offset by assets that were fully depreciated during the year.

Communications and information technology

Communications and information technology expense increased 17 per cent mainly due to higher usage of certain IT services, driven by ongoing digital transformation initiatives. To a lesser extent, higher prices for certain IT services also contributed to the increase.

Other operating expenses

Other operating expenses increased 11 per cent largely due to higher costs due to increased flying activity year over year and certain charges recorded during the year as described below.

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

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

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

(Canadian dollars in millions)	Full Year			
	2024	2023	$ Change	% Change [1]
Terminal handling	$ 546	$ 501	$ 45	9
Crew cycle	300	266	34	13
Building rent and maintenance	323	294	29	10
Miscellaneous fees and services	254	218	36	17
Remaining other expenses	1,035	940	95	10
Total other expenses	**$ 2,458**	**$ 2,219**	**$ 239**	**11**

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

CASM and adjusted CASM

In 2024, unit cost or CASM, increased 1.8 per cent year over year. The increase largely reflected the impact of the one-time pension past service cost of $490 million related to the collective agreement with ALPA, as well as higher labour, maintenance and IT expenses. Declining jet fuel prices, higher operated capacity and certain contractual adjustments recorded in the year partially offset the increase.

Adjusted CASM increased 2.3 per cent driven by year-over-year increases in labour, maintenance and information technology expenses, partially offset by the capacity growth and certain contractual adjustments recorded in the year 2024.

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

(cents per ASM)	Full Year			
	2024	2023	$ Change	% Change [1]
CASM	**¢ 20.11**	**¢ 19.75**	**¢ 0.36**	**1.8**
Remove:				
Aircraft fuel expense, ground package costs, freighter costs, pension plan amendments and provision for contractual lease obligations	(6.31)	(6.26)	(0.05)	0.8
Adjusted CASM	**¢ 13.80**	**¢ 13.49**	**¢ 0.31**	**2.3**

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

Non-operating expense

In 2024, non-operating expenses totalled $748 million, compared to $67 million in 2024.

Foreign exchange losses amounted to $400 million compared to gains of $389 million in 2023. The December 31, 2024, closing exchange rate was US$1=1.4384 compared to US$1=$1.3243 at December 31, 2023. With the weakening of the Canadian dollar, the foreign exchange remeasurement on long-term debt and lease obligations resulted in a loss of $758 million and gains on foreign currency derivatives totalling $450 million in 2024.

Interest expense of $763 million decreased $181 million from 2023 due to lower debt levels resulting from debt prepayments made in 2023 and 2024. The decrease was partially offset by unfavourable foreign exchange year over year.

A loss on debt settlement of $46 million was recorded in the first quarter of 2024, related to the write-off of unamortized debt issuance costs associated with the refinancing transaction completed in March 2024. In November 2024, Air Canada completed a repricing of its US$1.175 billion term loan B, reducing the interest rate by 50 basis points. Related to this transaction, Air Canada recorded a $38 million gain on debt modifications in the fourth quarter of 2024. For additional information on debt repayments, refer to section 8.2 “Net Debt” of this MD&A.

Income tax

(Canadian dollars in millions)	Full Year	
	2024	2023
Current income tax recovery (expense)	$ (30)	$ 17
Deferred income tax recovery	1,235	47
Income tax recovery	**$ 1,205**	**$ 64**

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

Further information about Air Canada’s income taxes is provided in Note 11 of Air Canada’s audited consolidated financial statements and notes for 2024.

6. Results of operations – Q4 2024 versus Q4 2023

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

(Canadian dollars in millions, except where indicated)	Fourth Quarter			
	2024	2023	$ Change	% Change [1]
Operating revenues				
Passenger	$ 4,726	$ 4,553	173	4
Cargo	293	244	49	20
Other	385	378	7	2
Total operating revenues	**5,404**	**5,175**	**229**	**4**
Operating expenses				
Aircraft fuel	1,154	1,391	(237)	(17)
Wages, salaries and benefits	1,680	1,075	605	56
Depreciation and amortization	460	442	18	4
Airport and navigation fees	357	350	7	2
Aircraft maintenance	361	311	50	16
Sales and distribution costs	260	253	7	3
Capacity purchase fees	216	223	(7)	(3)
Ground package costs	208	177	31	18
Communications and information technology	162	140	22	16
Catering and onboard services	154	161	(7)	(4)
Other	646	573	73	13
Total operating expenses	**5,658**	**5,096**	**562**	**11**
Operating income (loss)	**(254)**	**79**	**(333)**	
Non-operating income (expense)				
Foreign exchange gain (loss)	(372)	72	(444)	
Interest income	95	109	(14)	
Interest expense	(184)	(222)	38	
Interest capitalized	8	5	3	
Financial instruments recorded at fair value	(38)	91	(129)	
Gain (loss) on debt settlements and modifications	38	(1)	39	
Other	(14)	(11)	(3)	
Total non-operating income (loss)	**(467)**	**43**	**(510)**	
Income (loss) before income taxes	**(721)**	**122**	**(843)**	
Income tax recovery	77	62	15	
Net income (loss)	**$ (644)**	**$ 184**	**$ (828)**	
Basic earnings (loss) per share	**$ (1.81)**	**$ 0.51**	**$ (2.32)**	
Diluted earnings (loss) per share	**$ (1.81)**	**$ 0.41**	**$ (2.22)**	
Adjusted EBITDA [2]	**$ 696**	**$ 521**	**$ 175**	
Adjusted pre-tax income (loss) [2]	**$ 135**	**$ (47)**	**$ 182**	
Adjusted net income (loss) [2]	**$ 93**	**$ (44)**	**$ 137**	
Adjusted earnings (loss) per share – diluted [2]	**$ 0.25**	**$ (0.12)**	**$ 0.37**	

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

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

System passenger revenues

In the fourth quarter of 2024, passenger revenues of $4,726 million increased $173 million or four per cent from the fourth quarter of 2023. The increase was primarily due to growth in operated capacity in Canada and the Pacific markets and a strong yield environment in the Transborder market.

The revenue environment progressed favourably in the quarter, having recovered from the impact of potential labour disruption and the flexible rebooking policy Air Canada implemented in September and in the first half of October 2024.

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

	Fourth Quarter			
(Canadian dollars in millions)	2024	2023	$ Change	% Change [1]
Canada	$ 1,305	$ 1,245	$ 60	4.8
U.S. transborder	1,059	993	66	6.6
Atlantic	1,263	1,259	4	0.4
Pacific	646	611	35	5.7
Other	453	445	8	1.8
System	**$ 4,726**	**$ 4,553**	**$ 173**	**3.8**

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

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

	Fourth Quarter 2024 versus Fourth Quarter 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	4.8	6.5	4.5	(1.6)	0.3	(1.6)
U.S. transborder	6.6	(0.9)	(0.3)	0.5	6.9	7.5
Atlantic	0.4	(4.6)	(6.3)	(1.5)	7.1	5.2
Pacific	5.7	13.2	11.3	(1.5)	(5.0)	(6.6)
Other	1.8	3.1	1.4	(1.3)	0.3	(1.3)
System	**3.8**	**2.1**	**0.8**	**(1.0)**	**3.0**	**1.7**

Domestic passenger revenues

Domestic passenger revenues increased five per cent driven by capacity growth and favourable yields across domestic routes. These results reflected continued strength in demand for air travel within a competitive marketplace.

U.S. transborder passenger revenues

U.S. transborder passenger increased seven per cent driven by yield gains in nearly all transborder major route groups.

Atlantic passenger revenues

Atlantic passenger revenues were essentially flat year over year as yield gains in most routes more than offset the traffic and capacity declines.

Pacific passenger revenues

Pacific passenger revenues increased six per cent driven by the 13 per cent capacity expansion. The capacity growth reflected the restoration of services to Asia Pacific regions, most notably in Japan, Korea and Hong Kong, and the launch of the Vancouver-Singapore route.

Other passenger revenues

Other passenger revenues increased two per cent driven by capacity and yield growth in Central America and the Caribbean.

Cargo revenues

In the fourth quarter of 2024, Cargo revenues of $293 million increased $49 million or 20 per cent from the fourth quarter of 2023. The increase was primarily driven by yield strength and higher volumes of chargeable kilos across all markets. The increase reflected a better operating environment for Cargo, having recovered from lower cargo volumes and yields in 2023 and in the first six months of 2024.

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

	Fourth Quarter			
(Canadian dollars in millions)	2024	2023	$ Change	% Change [1]
Canada	$ 30	$ 25	$ 5	18.6
U.S. transborder	17	12	5	33.1
Atlantic	110	104	6	4.8
Pacific	92	65	27	42.5
Other	44	38	6	18.4
System	**$ 293**	**$ 244**	**$ 49**	**19.7**

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

Other revenues

In the fourth quarter of 2024, other revenues of $385 million increased $7 million or two per cent from the fourth quarter of 2023. The performance was driven by higher ground package revenues at Air Canada Vacations, partially offset by lower buy on-board revenues and miscellaneous passenger fees.

Operating expenses

In the fourth quarter of 2024, operating expenses increased 11 per cent. This was largely the result of the one-time pension past service cost of $490 million resulting from the ratification of the new collective agreement with ALPA, higher labour, maintenance and information technology expenses. Lower aircraft fuel expense year over year partially offset the increase.

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

Aircraft fuel

Aircraft fuel expense declined 17 per cent as a result of a 20 per cent decline in jet fuel prices year over year, net of an unfavourable foreign exchange variance. The decline was partially offset by an increase in litres of jet fuel used due to higher levels of flying and a $21 million loss in jet fuel hedges (loss of $17 million in the fourth quarter of 2023).

Wages, salaries and benefits

Wages, salaries and benefits increased 56 per cent. The increase reflected the one-time pension past service cost of $490 million as a result of certain pension plan amendments made in conjunction with the collective agreement with ALPA, higher average salaries year over year and the increased number of employees required to support the capacity growth.

Aircraft maintenance

Aircraft maintenance expense increased 16 per cent driven by a greater number of scheduled engine and airframe maintenance events, higher average prices for maintenance events and, to a lesser extent, increased maintenance activity to support higher levels of flying.

Ground package costs

Ground package costs increased 18 per cent driven by higher prices and higher volume of passengers year over year.

Communications and information technology

Communications and information technology expenses increased 16 per cent mainly due to higher usage of certain IT services, driven by ongoing digital transformation initiatives, and higher prices for certain IT services.

Other operating expenses

Other operating expenses increased 13 per cent largely due to higher costs due to increased flying activity year over year and an unfavourable foreign exchange variance.

The year over year increase in miscellaneous fees and services included an accrual for processing fees relating to customer compensation matters.

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

	Fourth Quarter			
(Canadian dollars in millions)	2024	2023	$ Change	% Change [1]
Terminal handling	$ 135	$ 131	$ 4	3
Crew cycle	75	68	7	10
Building rent and maintenance	82	80	2	2
Miscellaneous fees and services	78	54	24	44
Remaining other expenses	276	240	36	15
Total other expenses	**$ 646**	**$ 573**	**$ 73**	**13**

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

CASM and adjusted CASM

In the fourth quarter of 2024, CASM increased 8.8 per cent year over year. The increase largely reflected the impact of the one-time pension past service cost related to the collective agreement with ALPA, as well as higher labour, maintenance and IT expenses. Declining jet fuel prices and higher operated capacity partially offset the increase.

Adjusted CASM increased 5.7 per cent driven by the year-over-year increases in labour, maintenance and information technology expenses, which increased at a larger rate than capacity. This was partially offset by the capacity growth and year-over-year declines in capacity purchase fees and catering expenses.

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

	Fourth Quarter			
(cents per ASM)	2024	2023	$ Change	% Change [1]
CASM	¢ 22.67	¢ 20.85	¢ 1.82	8.8
Remove:				
Aircraft fuel expense, ground package costs, freighter costs and pension plan amendments	(7.62)	(6.60)	(1.02)	15.5
Adjusted CASM	**¢ 15.05**	**¢ 14.25**	**¢ 0.80**	**5.7**

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

Non-operating income (expense)

In the fourth quarter of 2024, non-operating expenses totalled $467 million compared to non-operating income of $43 million in the fourth quarter of 2023.

Foreign exchange losses amounted to $372 million in the fourth quarter of 2024 compared to gains of $72 million in the same period last year. With the weakening of the Canadian dollar, the foreign exchange remeasurement on long-term debt and lease obligations resulted in a loss of $537 million and gains on foreign currency derivatives totalled $232 million in the fourth quarter of 2024.

Fourth quarter 2024 interest expense of $184 million decreased $38 million year over year due to lower debt levels resulting from debt prepayments made in 2023 and 2024. The decrease was partially offset by unfavourable foreign exchange year over year. For additional information on debt repayments, refer to section 8.2 "Net Debt" of this MD&A.

In November 2024, Air Canada completed a repricing of its US$1.175 billion term loan B, reducing the interest rate by 50 basis points. Related to this transaction, Air Canada recorded a $38 million gain on debt modifications in the fourth quarter of 2024.

7. Fleet

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

Mainline and Air Canada Rouge

The tables below provide information relating to the aircraft in Air Canada's and Air Canada Rouge's operating fleets as at December 31, 2024.

	At December 31, 2024				
Air Canada	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Wide-body aircraft					
Boeing 777-300ER	19	418	14.8	12	7
Boeing 777-200LR	6	300	17.3	4	2
Boeing 787-8	8	255	10.5	8	-
Boeing 787-9	31	298	7.6	25	6
Boeing 767-300 freighters	6	-	31.3	4	2
Airbus A330-300	20	295	18.3	10	10
Total wide-body aircraft	**90**	**321**	**14.0**	**63**	**27**
Narrow-body aircraft					
Boeing 737 MAX 8	41	169	5.1	31	10
Airbus A321	20	183	19.7	8	12
Airbus A320	22	133	24.6	9	13
Airbus A319	5	126	28.0	5	-
Airbus A220-300	34	137	3.9	34	-
Total narrow-body aircraft	**122**	**154**	**11.6**	**87**	**35**
Total Mainline	**212**	**222**	**12.6**	**150**	**62**

	At December 31, 2024				
Air Canada Rouge	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Narrow-body aircraft					
Airbus A321	14	203	9.7	4	10
Airbus A320	5	168	17.8	-	5
Airbus A319	18	136	26.8	15	3
Total Air Canada Rouge	**37**	**166**	**19.1**	**19**	**18**
Total Mainline & Rouge	**249**	**215**	**13.6**	**169**	**80**

The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleet for the dates indicated. The table also provides the planned Air Canada and Air Canada Rouge fleet as at the future dates indicated.

	Actual			Planned			
Air Canada	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026
Wide-body aircraft							
Boeing 777-300ER	19	-	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	30	1	31	1	32	-	32
Boeing 787-10	-	-	-	-	-	3	3
Boeing 767-300ER	-	-	-	2	2	-	2
Boeing 767-300 freighters	7	(1)	6	-	6	-	6
Airbus A330-300	18	2	20	-	20	-	20
Total wide-body aircraft	**88**	**2**	**90**	**3**	**93**	**3**	**96**
Narrow-body aircraft							
Boeing 737 MAX 8	40	1	41	6	47	5	52
Airbus A321XLR	-	-	-	2	2	11	13
Airbus A321	16	4	20	-	20	-	20
Airbus A320	19	3	22	-	22	-	22
Airbus A319	7	(2)	5	(3)	2	-	2
Airbus A220-300	33	1	34	10	44	16	60
Total narrow-body aircraft	**115**	**7**	**122**	**15**	**137**	**32**	**169**
Total Mainline	**203**	**9**	**212**	**18**	**230**	**35**	**265**

	Actual			Planned			
Air Canada Rouge	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026
Narrow-body aircraft							
Airbus A321	17	(3)	14	-	14	-	14
Airbus A320	5	-	5	-	5	-	5
Airbus A319	18	-	18	-	18	-	18
Total Air Canada Rouge	**40**	**(3)**	**37**	**-**	**37**	**-**	**37**
Total Mainline & Rouge	**243**	**6**	**249**	**18**	**267**	**35**	**302**

Air Canada Express

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

	Actual			Planned			
Air Canada Express	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200 [(1)]	15	(15)	-	-	-	-	-
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-400	43	2	45	(8)	37	-	37
Total Air Canada Express	**118**	**(13)**	**105**	**(8)**	**97**	**-**	**97**

(1) Excluded from the operating fleet at December 31, 2024, are 15 Mitsubishi CRJ-200 aircraft that are in long-term storage.

8. Financial and capital management

8.1 Liquidity

Liquidity risk management

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 8.5 "Capital Expenditures and Related Financing Arrangements", 8.6 "Pension Funding Obligations", and 8.7 "Contractual Obligations" of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. In addition, Air Canada monitors its financial leverage as measured by the net debt to adjusted EBITDA ratio, as further described in section 8.2 "Net Debt" of this MD&A

At December 31, 2024, total liquidity was $9,154 million comprised of cash and cash equivalents, short-term and long-term investments of $7,752 million, and $1,402 million available under undrawn credit facilities. Cash and cash equivalents included $346 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents and short- and long-term investments. Liquidity needs, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

8.2 Net debt

The table below reflects Air Canada's net debt balances as at December 31, 2024, and as at December 31, 2023.

(Canadian dollars in millions)	December 31, 2024	December 31, 2023	Change
Total long-term debt and lease liabilities	$ 10,915	$ 12,996	$ (2,081)
Current portion of long-term debt and lease liabilities	1,755	866	889
Total long-term debt and lease liabilities (including current portion)	**12,670**	**13,862**	**(1,192)**
Less cash, cash equivalents and short and long-term investments	(7,752)	(9,295)	1,543
Net debt [1]	**$ 4,918**	**$ 4,567**	**$ 351**
Adjusted EBITDA (trailing 12 months)	**$ 3,586**	**3,982**	**(396)**
Net debt to adjusted EBITDA ratio [1]	**1.4**	**1.1**	**0.3**

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

The decrease in total debt and liabilities reflects nearly $2.4 billion in repayments of debt and lease liabilities, including $1.475 billion (US$1.09 billion) in repayments made in the first quarter of 2024 in connection with the refinancing transaction completed in March 2024 as discussed below. The decrease was offset by higher foreign currency debt and lease liabilities, which were unfavorably impacted by the weakening in the Canadian dollar that resulted in a $758 million foreign exchange revaluation loss for the year ended December 31, 2024.

Net debt increased $351 million reflecting a decrease in the liquidity balance, which was due to the financing transactions described above, the use of $473 million for the purchase of shares for cancellation in 2024 (as discussed in section 8.8 "Share Information" of this MD&A, partially offset by free cash flow of $1,294 million in 2024.

Net debt to adjusted EBITDA ratio was 1.4 at December 31, 2024, compared to 1.1 at December 31, 2023, with the increase due to the increase in net debt and the decrease in adjusted EBITDA.

In March 2024, Air Canada entered into US$2.15 billion senior secured credit facilities, comprising a US$1.175 billion term loan B maturing in 2031 and a US$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US$1.090 billion, were applied to refinance all of Air Canada's indebtedness outstanding under its previous US$2.3 billion term loan B maturing in 2028. The new revolving facility, which is the result of an increase and extension of Air Canada's previous US$600 million revolving credit facility previously maturing in 2025, is undrawn as of December 31, 2024. Concurrently with the closing of these senior credit facilities, Air Canada also terminated its undrawn $200 million revolving credit facility maturing in 2026.

In November 2024, Air Canada completed a repricing of its US$1.175 billion term loan B, reducing the interest rate by 50 basis points, to an interest rate of two per cent over SOFR. In the fourth quarter of 2024, Air Canada recorded a $38 million gain on debt modification related to this transaction.

8.3 Working capital

The table below provides information on Air Canada's working capital balances as at December 31, 2024, and December 31, 2023.

(Canadian dollars in millions)	December 31, 2024	December 31, 2023[1]	$ Change
Cash, cash equivalents and short-term investments	$ 6,982	$ 8,551	$ (1,569)
Accounts receivable	1,089	1,121	(32)
Other current assets	991	588	403
Total current assets	**$ 9,062**	**$ 10,260**	**$ (1,198)**
Accounts payable and accrued liabilities	3,718	3,319	399
Advance ticket sales	4,387	4,341	46
Aeroplan and other deferred revenues	1,588	1,473	115
Current portion of long-term debt and lease liabilities	1,755	866	889
Total current liabilities	**$ 11,448**	**$ 9,999**	**$ 1,449**
Net working capital	**$ (2,386)**	**$ 261**	**$ (2,647)**

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

Net working capital deficiency of $2,386 million at December 31, 2024, reflected the use of $1,475 million (US$1,090 million) of cash to reduce Air Canada's outstanding senior secured indebtedness in connection with the refinancing transaction completed in March 2024, and discussed in section 8.2 "Net Debt" of this MD&A and $473 million for the purchase of shares for cancellation as discussed in section 8.8 "Share Information" of this MD&A.

In addition, $341 million of Air Canada's outstanding convertible notes were reclassified to current liabilities as they are convertible at the option of the noteholders as of March 1, 2025. Certain aircraft debt of $406 million was reclassified to current portion of debt as it matures in May 2025. Offsetting these factors were the positive earnings and cash from operations recorded during the year.

8.4 Cash flow movements

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

	Fourth Quarter			Full Year		
(Canadian dollars in millions)	2024	2023	$ Change	2024	2023	$ Change
Net cash flows from operating activities	$ 677	$ 985	$ (308)	$ 3,930	$ 4,320	$ (390)
Net cash flows used in financing activities	(715)	(332)	(383)	(2,872)	(2,368)	(504)
Net cash flows used in investing activities	(845)	(289)	(556)	(1,363)	(1,827)	464
Effect of exchange rate changes on cash and cash equivalents	8	(7)	15	6	(1)	7
Increase (decrease) in cash and cash equivalents	**$ (875)**	**$ 357**	**$ (1,232)**	**$ (299)**	**$ 124**	**$ (423)**

Net cash flows from operating activities

Air Canada generated net cash flows from operating activities in each of the fourth quarter and full year 2024, although these were lower compared to the 2023 comparative periods primarily due to a decrease in cash from working capital and operating results.

Net cash flows used in financing activities

Net cash flows used in financing activities amounted to $2,872 million in 2024, an increase of $504 million from the prior year and is primarily related to Air Canada's use of $473 million for the purchase of shares for cancellation discussed in section 8.8 "Share information" of this MD&A.

Net cash flows used in 2024 included the $1,475 million (US$1,090 million) debt repayment in the refinancing transaction completed in March 2024 and described in section 8.2 "Net Debt" of this MD&A.

Net cash flows used in investing activities

Net cash flows used in investing activities decreased $464 million in 2024 compared to 2023 mainly due to inflows from short-term and long-term investments partially offset by a $1,072 million increase in capital expenditures . The 2024 results include net proceeds of $1,274 million in disposal of short- and long-term investments to facilitate the $1.475 billion (US$1.09 billion) net repayment of long-term debt in March 2024 as described in section 8.3 "Working Capital" of this MD&A. Additions to property, equipment and intangible assets were $2,636 million in 2024, compared to $1,564 million in 2023. The year-over-year increase mainly reflected higher capitalized maintenance and capital expenditures for purchase of aircraft, including pre-delivery deposits for purchased aircraft that are scheduled to be delivered in future periods.

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

Free cash flow

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2024	2023	$ Change	2024	2023	$ Change
Net cash flows from operating activities	$ 677	$ 985	$ (308)	$ 3,930	$ 4,320	$ (390)
Additions to property, equipment, and intangible assets	(1,172)	(316)	(856)	(2,636)	(1,564)	(1,072)
Free cash flow [1]	$ (495)	$ 669	$ (1,164)	$ 1,294	$ 2,756	$ (1,462)

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

Air Canada generated $1,294 million in free cash flow in 2024. This was lower than 2023 as a result of higher capital expenditures and lower net cash flows from operating activities.

8.5 Capital expenditures and related financing arrangements

Airbus A321XLR aircraft

Air Canada is acquiring 30 extra-long range (XLR) Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in the fourth quarter of 2025 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 10 additional aircraft between 2030 and 2032.

Airbus A220-300 aircraft

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

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

Of the above-mentioned 65 firm orders, 34 have been delivered. Deliveries for the 31 remaining firm orders are planned to continue into 2027.

In October 2024, Air Canada received a loan commitment from Export Development Canada of up to US$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft, which are expected to be delivered no later than October 2027.

Boeing 737 MAX

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

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

In June 2024, Air Canada entered into lease agreements for eight additional Boeing 737 MAX 8 aircraft, of which one was delivered in June 2024 and two were delivered to date in 2025. In February 2025, Air Canada reduced the total number of aircraft to seven, which are scheduled to enter the operating fleet during 2025.

Boeing 767 freighter aircraft

In the first quarter of 2024, Air Canada adjusted its freighter capacity plans to align with market conditions and removed the addition of two Boeing 767 freighters from its 2024-2025 fleet plan.

Boeing 787-9 aircraft

In 2021, Air Canada exercised options for the purchase of three Boeing 787-9 aircraft. Two 787-9 aircraft were delivered, and the third aircraft is scheduled to be delivered in 2025.

Boeing 787-10 aircraft

In September 2023, Air Canada announced that it is acquiring 18 Boeing 787-10 aircraft. Deliveries are scheduled to begin in 2026, and Air Canada now expects delivery of the last four aircraft in 2030. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.

Heart Aerospace ES-30 electric aircraft

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

Capital commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at December 31, 2024 amounted to $13,059 million.

(Canadian dollars in millions)	2025	2026	2027	2028	2029	Thereafter	Total
Committed expenditures	$ 2,289	$ 2,746	$ 3,260	$ 957	$ 946	$ 2,861	$ 13,059
Projected planned but uncommitted expenditures	498	986	834	971	854	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	651	609	809	629	595	Not available	Not available
Total projected expenditures (2)	$ 3,438	$ 4,341	$ 4,903	$ 2,557	$ 2,395	Not available	Not available

(1) Future capitalized maintenance amounts for 2028 and beyond are not yet determinable, however estimates of $629 million and $595 have been made for 2028 and 2029, respectively.

(2) U.S. dollar amounts are converted using the December 31, 2024 closing exchange rate of US$1=C$1.4384. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

8.6 Pension funding obligations

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

On a preliminary basis, at January 1, 2025, the aggregate solvency surplus in Air Canada's domestic registered pension plans was estimated at $4.0 billion. The final valuations will be completed in the first half of 2025. As permitted by legislation and subject to applicable plan rules, amounts in excess of 105 per cent on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Total employer defined benefit pension funding contributions (including international and supplemental plans) amounted to $102 million in 2024 and are forecasted to be $66 million in 2025.

Net of the surplus in the defined benefit components which was used to fund the employer contribution to a defined contribution component within the same pension plan, total employer contributions for the defined contribution plans and multi-employer plans amounted to $85 million in 2024 and are forecasted to be $92 million in 2025.

As a result of the collective agreement concluded with ALPA, the impact of the changes to the defined benefit pension plans was recognized in the fourth quarter of 2024. Air Canada recorded a one-time pension past service cost of $490 million to reflect changes relating to pension plan changes as a result of the new collective agreement. Some of these changes are conditional on future pension solvency financial positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. The net impact of these changes will be funded out of the surplus in the Pilots' domestic registered pension plan and are not expected to impact Air Canada's liquidity position.

As at December 31, 2024, approximately 90 per cent of Air Canada's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada seeks to maintain a high percentage of long-term fixed income products to hedge pension liabilities.

Pension plan assets

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2023 – 17,646,765) shares of Air Canada which were issued to a trust in 2009 in connection with pension funding agreements reached with all of Air Canada's Canadian-based unions. The trust arrangement provides that proceeds of the sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize. In addition, for so long as the trust continues to hold at least two per cent of Air Canada's issued and outstanding shares, the trustee will have the right to designate one nominee to the Board of Directors of Air Canada (who shall not be a member or officer of any of its Canadian-based unions), subject to completion by Air Canada of its usual governance process for selection and confirmation of director nominees.

With Air Canada's domestic registered plans in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust had a fair value of $393 million at December 31, 2024 (2023 – $330 million), however after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If certain conditions are met, the trust would gradually sell shares up to the end of 2037, and the net proceeds from these sales would be used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. Pursuant to the agreement in principle, the above-described right to designate one nominee for election to the Board of Directors of Air Canada would continue until the earlier of (i) January 1, 2030, or (ii) the date that Air Canada shares in trust represent two per cent or less of Air Canada's issued and outstanding shares. There are several conditions to the completion of the agreement in principle and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. While the satisfaction of the conditions is being pursued, there can be no assurance that these or any other conditions will be satisfied.

8.7 Contractual obligations

The table below provides Air Canada's projected contractual obligations as at December 31, 2024, 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)	2025	2026	2027	2028	2029	Thereafter	Total
Principal							
Long-term debt [1]	$ 1,176	$ 2,528	$ 1,102	$ 1,377	$ 2,309	$ 2,026	$ 10,518
Lease liabilities	592	429	329	253	154	676	2,433
Total principal obligations	**$ 1,768**	**$ 2,957**	**$ 1,431**	**$ 1,630**	**$ 2,463**	**$ 2,702**	**$ 12,951**
Interest							
Long-term debt	458	397	273	234	218	134	1,714
Lease liabilities	123	94	72	56	42	259	646
Total interest obligations	**$ 581**	**$ 491**	**$ 345**	**$ 290**	**$ 260**	**$ 393**	**$ 2,360**
Total long-term debt and lease liabilities	**$ 2,349**	**$ 3,448**	**$ 1,776**	**$ 1,920**	**$ 2,723**	**$ 3,095**	**$ 15,311**
Committed capital expenditures	**$ 2,289**	**$ 2,746**	**$ 3,260**	**$ 957**	**$ 946**	**$ 2,861**	**$ 13,059**
Total contractual obligations [2]	**$ 4,638**	**$ 6,194**	**$ 5,036**	**$ 2,877**	**$ 3,669**	**$ 5,956**	**$28,370**

(1) Assumes the principal balance of the convertible notes, $394 million (US$274 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of $1,273 million for the unsecured credit facility in connection with the Government of Canada financing to support customer refunds of non-refundable tickets and $1,677 million (US$1,166 million) for the term loan B 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.

8.8 Share information

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

	December 31, 2024	December 31, 2023
Issued and outstanding shares		
Class A variable voting shares	102,314,033	82,887,375
Class B voting shares	237,525,089	275,581,911
Total issued and outstanding shares	**339,839,122**	**358,469,286**
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	17,856,599	17,856,599
Stock options	9,230,773	6,642,516
Total shares potentially issuable	**27,087,372**	**24,499,115**
Total outstanding and potentially issuable shares	**366,926,494**	**382,968,401**

Normal course issuer bid

In the fourth quarter of 2024, Air Canada received approval from the Toronto Stock Exchange ("TSX") to launch a normal course issuer bid ("Issuer Bid") allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 5, 2024 to November 4, 2025, up to 35,783,842 of its Class A variable voting shares and Class B voting shares, representing about 10 per cent of the public float thereof as at October 22, 2024.

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

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

Air Canada security holders may obtain a copy of Air Canada's Notice of Intention to Make a Normal Course Issuer Bid, without charge, by contacting Shareholder Relations at shareholders.actionnaires@aircanada.ca or +1 (514) 422-6644.

9. Quarterly financial data

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

	2023				2024			
(Canadian dollars in millions, except per share figures)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenues	$ 4,887	$ 5,427	$ 6,344	$ 5,175	$ 5,226	$ 5,519	$ 6,106	$ 5,404
Operating expenses	4,904	4,625	4,929	5,096	5,215	5,053	5,066	5,658
Operating income (loss)	**(17)**	**802**	**1,415**	**79**	**11**	**466**	**1,040**	**(254)**
Non-operating income (expense)	**(6)**	**(6)**	**(98)**	**43**	**(76)**	**(62)**	**(143)**	**(467)**
Income (loss) before income taxes	**(23)**	**796**	**1,317**	**122**	**(65)**	**404**	**897**	**(721)**
Income tax recovery (expense)	27	42	(67)	62	(16)	6	1,138	77
Net income (loss)	**$ 4**	**$ 838**	**$ 1,250**	**$ 184**	**$ (81)**	**$ 410**	**$ 2,035**	**$ (644)**
Basic earnings (loss) per share	**$ 0.01**	**$ 2.34**	**$ 3.49**	**$ 0.51**	**$ (0.22)**	**$ 1.14**	**$ 5.68**	**$ (1.81)**
Diluted earnings (loss) per share	**$ (0.03)**	**$ 2.34**	**$ 3.08**	**$ 0.41**	**$ (0.22)**	**$ 1.04**	**$ 5.38**	**$ (1.81)**
Adjusted EBITDA (1)	**$ 411**	**$ 1,220**	**$ 1,830**	**$ 521**	**$ 453**	**$ 914**	**$ 1,523**	**$ 696**
Adjusted pre-tax income (loss) (1)	**$ (194)**	**$ 656**	**$ 1,278**	**$ (47)**	**$ (94)**	**$ 371**	**$ 985**	**$ 135**
Adjusted net income (loss) (1)	**$ (188)**	**$ 664**	**$ 1,281**	**$ (44)**	**$ (96)**	**$ 369**	**$ 969**	**$ 93**
Adjusted earnings (loss) per share – diluted (1)	**$ (0.53)**	**$ 1.85**	**$ 3.41**	**$ (0.12)**	**$ (0.27)**	**$ 0.98**	**$ 2.57**	**$ 0.25**

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

10. Annual information

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

(Canadian dollars in millions, except per share figures)	Full Year		
	2024	2023 [1]	2022
Operating revenues	$ 22,255	$ 21,833	$ 16,556
Operating expenses	20,992	19,554	16,743
Operating income (loss)	**1,263**	**2,279**	**(187)**
Income (loss) before income taxes	515	2,212	(1,524)
Income tax recovery (expense)	1,205	64	(176)
Net income (loss)	**$ 1,720**	**$ 2,276**	**$ (1,700)**
Basic earnings (loss) per share	**$ 4.81**	**$ 6.35**	**$ (4.75)**
Diluted earnings (loss) per share	**$ 4.72**	**$ 5.96**	**$ (4.75)**
Adjusted EBITDA [2]	**$ 3,586**	**$ 3,982**	**$ 1,457**
Adjusted pre-tax income (loss) [2]	**$ 1,397**	**$ 1,693**	**$ (952)**
Adjusted net income (loss) [2]	**$ 1,335**	**$ 1,713**	**$ (988)**
Adjusted earnings (loss) per share – diluted [2]	**$ 3.55**	**$ 4.56**	**$ (2.76)**
Cash, cash equivalents and short-term investments	**$ 6,982**	**$ 8,551**	**$ 7,988**
Total assets	**$ 31,208**	**$ 30,171**	**$ 29,507**
Total long-term liabilities	**$ 17,372**	**$ 19,376**	**$ 21,709**
Total liabilities	**$ 28,820**	**$ 29,375**	**$ 31,062**

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

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

11. Financial instruments and risk management

Financial instruments recorded at fair value

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

(Canadian dollars in millions)	Fourth Quarter		Full Year	
	2024	2023	2024	2023
Embedded derivative on convertible notes	$ (35)	$ 32	$ 11	$ 64
Short-term and long-term investments	(3)	53	17	45
Other	-	6	-	6
Gain (loss) on financial instruments recorded at fair value	**$ (38)**	**$ 91**	**$ 28**	**$ 115**

Risk management

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

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

Fuel price risk management

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

During 2024, Air Canada entered into jet fuel swap contracts covering a portion of 2024 fuel exposure. These derivative contracts cash settled with a fair value of $54 million in favor of the counterparties, with a hedging loss of $54 million recorded in Aircraft fuel expense. No hedge ineffectiveness was recorded. There were no outstanding fuel derivatives as at December 31, 2024 nor as at December 31, 2023.

During 2023, Air Canada purchased jet fuel call options covering a portion of 2023 fuel exposure. The cash premium related to these contracts was $44 million. Premium costs and any hedging gains and losses are reclassified from other comprehensive income to Aircraft fuel expense on settlement of the derivatives. Fuel derivative contracts cash settled with a fair value of $95 million in favour of Air Canada, with a net hedging gain of $51 million recorded in aircraft fuel expense.

Foreign exchange risk

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

Air Canada generates certain sales in U.S. dollars and in other foreign currencies which are converted to U.S. dollars under its risk management program. In 2024, these net operating cash inflows totalled approximately US$3.7 billion and U.S. denominated operating costs amounted to approximately US$7.3 billion. Non-operating cash outflows in U.S. dollars, primarily related to interest payments on U.S. dollar denominated debt and net financing outflows, amounted to approximately US$3.5 billion. For 2024, this resulted in a U.S. dollar net cash flow exposure of approximately US$7.1 billion.

In 2024, Air Canada increased its target foreign currency derivative coverage from 60 per cent to 70 per cent on a rolling 18 month basis to manage its net U.S. dollar cash flow exposure described above utilizing the following risk management strategies:

- Holding U.S. dollar cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash, short and long-term investment balances as at December 31, 2024 amounted to $805 million (US$561 million) ($1,123 million (US$845 million) as at December 31, 2023). A portion of the cash and investment reserves are an economic hedge against long-term U.S. dollar debt while the remainder of the cash is operational cash and investment reserves which are applied against the rolling 18 month net U.S. dollar cash flow exposure. In 2024, a gain of $64 million (loss of $18 million in 2023) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short and long-term investment balances held.
- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments. Based on the notional amount of currency derivatives outstanding at December 31, 2024, as further described below, approximately 74 per cent of net U.S. cash outflows are hedged for 2025 and 60 per cent for 2026, resulting in derivative coverage of 69 per cent over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 70 per cent coverage over the next 18 months.

As at December 31, 2024, Air Canada had outstanding foreign currency options and swap agreements, settling in 2025 and 2026, to purchase at maturity $9,812 million (US$6,847 million) of U.S. dollars at a weighted average rate of $1.3457 per US$1.00 (2023 – $5,982 million (US$4,542 million) with settlements in 2024 and 2025 at a weighted average rate of $1.3089 per US$1.00). Air Canada also has protection in place to sell a portion of its excess Euros, Sterling, YEN, CNH, and AUD (EUR €341 million, GBP £172 million, JPY ¥38,610 million, CNH ¥711 million and AUD $242 million) which settle in 2025 and 2026 at weighted average rates of €1.1267, £1.1.2897, ¥0.0071, CNH ¥0.1435 and AUD $0.6810 per US$1.00, respectively (as at December 31, 2023 – EUR €276 million, GBP £166 million, JPY ¥14,797 million, and AUD $124 million) with settlement in 2024 and 2025 at weighted average rates of €1.1292, £1.2790, ¥0.0075, and AUD $0.6920 per US$1.00.

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at December 31, 2024 was $22 million in favour of Air Canada (2023 – $165 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 2024, a gain of $450 million was recorded in Foreign exchange gain (loss) related to these derivatives (2023 – $139 million gain). In 2024, foreign exchange derivative contracts cash settled with a net fair value of $265 million in favour of Air Canada (2023 – $163 million in favour of Air Canada).

Interest rate risk

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

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

The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in Air Canada's capital structure and is based upon a long-term objective of 60 per cent fixed and 40 per cent floating but allows flexibility to adjust to prevailing market conditions. The ratio at December 31, 2024 is 84 per cent fixed and 16 per cent floating (75 per cent and 25 per cent, respectively as at December 31, 2023).

12. Accounting policies

Information on Air Canada's accounting policies is provided in Note 2 of Air Canada's audited consolidated financial statements and notes for 2024, including future changes in accounting policies for amendments to standards not yet effective.

Amendments to IAS 1, Presentation of financial statements - Classification of liabilities as current or non-current

In October 2022, the IASB published amendments to the Classification of Liabilities as Current or Non-current in IAS 1 Presentation of Financial Statements. The amendments aim to improve the information companies provide when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2024. Air Canada adopted this amendment in the first quarter of 2024 with no impact to Air Canada's consolidated statement of financial position.

IAS 12 income taxes

In May 2023, the IASB issued an amendment to IAS 12. The amendment addresses accounting for the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation for Economic Co-operation and Development. The objective of the tax reform is to ensure that large multinational enterprises are subject to a minimum income tax rate of 15 per cent in each jurisdiction they operate. The amendment to IAS 12 includes temporary mandatory relief from recognizing and disclosing deferred taxes related to the implementation of Pillar Two global minimum tax rules.

In June 2024, the Global Minimum Tax Act was enacted in Canada which is a jurisdiction where Air Canada has a constituent entity for the purposes of Pillar Two. Air Canada adopted the amendments to IAS 12 in the second quarter of 2024 and applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. This exception has been applied retrospectively but no adjustments to previously reported figures were required. There is no material impact for the year ended December 31, 2024.

Accounting standards and amendments issued but not yet effective

The following accounting standards and amendments to accounting standards issued by the IASB have not yet been adopted by Air Canada. Air Canada is evaluating the impact of these standards and amendments on its consolidated financial statements.

IFRS 18 – presentation and disclosure in financial statements

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements but carries forward many of the requirements from IAS 1. The standard introduces new defined subtotals to be presented in the consolidated statements of operations, disclosure of management-defined performance measures related to the income statement and requirements for grouping of information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with earlier adoption permitted.

Amendments to the classification and measurement of financial instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The narrow scope amendments clarify classification guidance for financial assets with environmental, social and corporate governance features; and clarify the date on which a financial asset or financial liability is derecognized when using electronic payment systems. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted.

13. Critical accounting estimates and judgments

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

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

Impairment considerations on long-lived assets

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

Aeroplan loyalty program

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

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

As at December 31, 2024, the Aeroplan Points deferred revenue balance was $3,785 million. For the purposes of sensitivity analysis, a one per cent change in the number of outstanding Points estimated to be redeemed would result in an approximate impact of $38 million on revenue with a corresponding adjustment to Aeroplan deferred revenue.

Passenger revenues - breakage

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

Depreciation and amortization period for long-lived assets

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

Maintenance provisions

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

Income taxes

Since 2020, the net deferred income tax assets related to unused tax losses and other deductible temporary differences have not been recognized. As a result of the COVID-19 pandemic, there was considerable negative evidence relating to losses that were incurred at that time and assumptions as to the timing of reversal of temporary differences including expectations about the future results of operations and future cash flows.

During the third quarter of 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Refer to Note 11 Income taxes of Air Canada's audited consolidated financial statements and notes for 2024 for additional information on the recognition of deferred income tax assets.

Employee future benefits

The cost and related liabilities of Air Canada's pension, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions and estimates including discount rates and mortality assumptions. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty. Refer to Note 9 Pensions and other benefit liabilities of Air Canada's audited consolidated financial statements and notes for 2024 for additional information.

Assumptions

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

Discount rate

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

Future increases in compensation

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

Mortality assumptions

Mortality tables and improvement scales issued by the Canadian Institute of Actuaries (revised in 2014) were taken into account in selecting management's best estimate mortality assumption used to calculate the accrued benefit obligation as at December 31, 2024 and 2023.

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

	Pension Benefits		Other Employee Future Benefits	
	2024	2023	2024	2023
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	4.64%	5.28%	4.64%	5.28%
Service cost for the year ended December 31	4.65%	5.28%	4.65%	5.28%
Accrued benefit obligation as at December 31	4.70%	4.64%	4.70%	4.64%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.75%	2.75%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.75%	Not applicable	Not applicable

Sensitivity analysis

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

Sensitivity analysis on 2024 pension expense, net interest relating to pension benefit liabilities and pension obligation, based on different actuarial assumptions with respect to discount rate is set out below. The effects on each pension plan of a change in an assumption are weighted proportionately to the total plan obligation to determine the total impact for each assumption presented.

(Canadian dollars in millions)	0.25 Percentage Point Decrease	0.25 Percentage Point Increase
Discount rate on obligation assumption		
Pension expense	$ 34	$ (32)
Net interest relating to pension benefit liabilities	11	(9)
Total	**$ 45**	**$ (41)**
Increase (decrease) in pension obligation	**$ 604**	**$ (571)**

The increase (decrease) in the pension obligation for a 0.25-percentage-point change in the discount rate relates to the gross amount of the pension liabilities and is before the impact of any change in plan assets. As at December 31, 2024, approximately 90 per cent of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk.

An increase of one year in life expectancy would increase the pension benefit obligation by $433 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.5 per cent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2024 and thereafter, unchanged from the 2023 assumption. A one-percentage-point increase in assumed health care trend rates would have increased the total of current service and interest costs by $5 million and the obligation by $61 million. A one-percentage-point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by $4 million and the obligation by $64 million.

A 0.25-percentage-point decrease in discount rate for other employee future benefits would have increased the total of current and interest costs by less than $1 million and the obligation by $34 million. A 0.25-percentage-point increase in discount rate would have decreased the total of current and interest costs by less than $1 million and the obligation by $32 million.

14. Off-balance sheet arrangements

Guarantees

Air Canada participates in fuel facility arrangements operated through nine Fuel Facility Corporations, and three aircraft de-icing service facilities, along with other airlines that contract for fuel and de-icing services at various major airports in Canada. These entities operate on a cost recovery basis. The aggregate debt of these entities that has not been consolidated by Air Canada under IFRS 10 Consolidated Financial Statements is approximately $1,425 million as at December 31, 2024 (December 31, 2023 – $1,215 million), which is Air Canada's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur among the other contracting airlines. Air Canada views this loss potential as remote. Each contracting airline participating in these entities shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

Indemnification agreements

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

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

15. Related party transactions

At December 31, 2024, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements and sponsorship and management services for a number of post-retirement plans which are related parties. Refer to Notes 9 and 21 of Air Canada's audited consolidated financial statements and notes for 2024, for additional information on these plans.

16. Sensitivity of results

Air Canada's financial results are subject to many different internal and external factors which can have a significant impact on results of operations. The following table describes, on an indicative basis, the financial impact that changes in fuel prices and the value of the Canadian dollar would generally have had on Air Canada's past results of operations. An equivalent but opposite movement of the sensitivity factor in the table below would have generally resulted in a similar but opposite impact. These guidelines were derived from 2024 levels of activity and are based on management estimates. The impacts are not additive, do not reflect the interdependent relationship of the elements and may not be indicative of future trends or results which may vary significantly due to a wide range of factors many of which are beyond the control of Air Canada.

Key Variable	2025 Measure	Sensitivity Factor	Favourable/ (Unfavourable) Estimated Operating Income Impact/ Pre-tax Income (Canadian dollars in millions)
Fuel			
Fuel – Jet fuel price (US$/barrel) (1)	$99	US$1/barrel increase	$ (49)
Fuel – Jet fuel price (C$/litre) (1)	$1.01	1% increase	$ (52)
Currency Exchange			
C$ to US$	US$1=C$1.40	1 cent appreciation (i.e. from $1.40 to $1.39 per US$)	
		Operating income (2)	$ 36
		Net interest expense	4
		Revaluation of long-term debt and lease liabilities, U.S. dollar cash, cash equivalents and short-term investments, and other long-term monetary items, net	67
		Remeasurement of outstanding currency derivatives	(68)
		Pre-tax income impact	$ 39

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

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

17. Enterprise risk management and governance

Overview

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

Board oversight

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

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

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

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

Risk management framework and structure

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

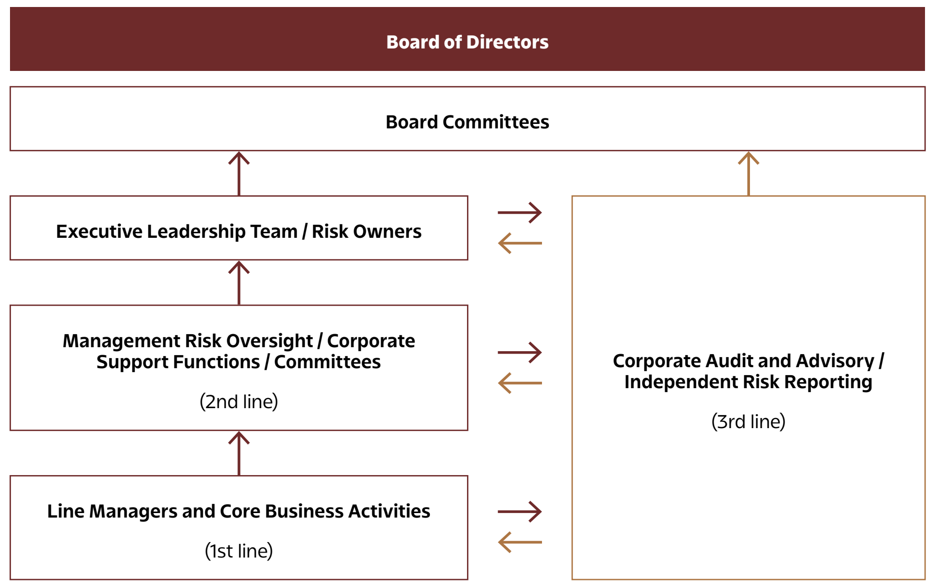
Air Canada identifies and assesses enterprise-level risks and classifies them in the following categories: Safety, Regulatory, Financial, Commercial, Operational and Reputational. These risk categories and the risks assigned to each category are reviewed quarterly and reported to the Audit, Finance,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

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

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

- 1st line - Business functions are expected to integrate risk management when performing their day-to-day core commercial and operational activities.
- 2nd line - Support functions establish policies, provide guidance and expertise, and risk oversight (e.g. Safety, Security, Legal and Compliance, Finance/Treasury/Tax, Sourcing and Procurement, Government Affairs, People, Environment, IT Operations and Cybersecurity).
- 3rd line - Corporate Audit and Advisory department provides an independent and objective perspective on Air Canada's governance, risk management practices and controls.

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



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

18. Risk factors

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

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

Air Canada's results from operations are sensitive to and may be significantly impacted by economic and geopolitical conditions, which may also impact overall demand for air transportation or to or from certain destinations, the ability to operate to destinations or the viability of routes, operating costs and revenues, fuel cost and availability, foreign exchange costs, tax costs and the costs and availability of capital and supplies. Statements or actions by governments relating to the imposition of (or threats to impose) tariffs on Canadian exports or imports, as well as reactions from consumers and other customers of Air Canada, including travel boycotts to Air Canada destinations, may pose significant risks to Air Canada, as well as the Canadian economy, and may undermine investor confidence, and disrupt the highly integrated supply chains which drive economic activity in Canada or on which Air Canada relies, negatively impacting trade, economic stability and Air Canada's access to supplies or costs. Any uncertainty created by these statements or actions may also lead to a chilling effect on economic growth as businesses, investors and consumers adopt a wait-and-see approach. Any prolonged or significant impact arising from economic and geopolitical conditions, including in relation to conflicts in the Middle East, or Russia and Ukraine, or other geopolitical conflicts, and civil unrest, as well as related responses of various governments and authorities (or lack thereof), infectious diseases, weakness of the Canadian, U.S. or world economies, inflation, disputes, changes or uncertainty relating to political, economic, fiscal or trading policies or relationships, within or between jurisdictions where Air Canada operates flights or does business, or threatened or actual conflicts or outbreaks of hostilities in or adjacent to regions Air Canada serves or over which it operates flights or does business could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

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

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

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

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

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

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

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

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

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

Air Canada relies heavily on technology, including to operate its business, increase its revenues and reduce its costs. Air Canada's technology systems include those relating to its websites, passenger sales and services, cargo services, airport customer services, flight operations, loyalty program, communications, distribution, and other business activities. Air Canada's websites and other technology systems must efficiently accommodate a high volume of traffic and must securely and effectively process and deliver information critical to Air Canada's business and operations. Air Canada's business also requires the secure collection, processing, storage and effective governance of sensitive data, including personal information of its passengers, Aeroplan Members, employees, business partners and others. Appropriate development and governance of artificial intelligence systems is crucial, including to ensure safety, enhance operational efficiency, achieve business objectives and maintain public trust. The effective, reliable and secure operation and governance of the networks and systems (including third party systems) on which sensitive information is stored, transmitted and processed is critical to Air Canada's business.

The technology systems Air Canada relies on also depend on the performance of its many suppliers and Air Canada has less direct oversight over their security ecosystem and practices. These suppliers' performance is in turn dependent upon their respective technology ecosystems. Technology systems may be vulnerable to a variety of sources of failures, interruption or misuse, including by reason of human error, third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, misuse, unauthorized or fraudulent users (including cyber-attacks, malware, ransomware, computer viruses and the like), and other operational and security issues.

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

In light of the evolving nature and sophistication of information security threats, our information security systems and controls must continuously adapt and require continuous monitoring to ensure effectiveness. Despite our efforts, and those of third parties we rely on, given the complexity and scale of our business, network infrastructure, technology and IT supporting systems, there can be no assurance that our information security systems and controls will be effective. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

Any technology system failure, degradation, interruption, misuse or fraudulent use, security breach, or failure to comply with applicable confidentiality, privacy, security or other related obligations, whether at Air Canada or a third party on which Air Canada or its suppliers rely, could adversely affect Air Canada, including by damaging its reputation and exposing Air Canada to litigation, claims for contract breach, fines, sanctions and/or remediation costs, any of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

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

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

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

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

In certain cases, Air Canada may only be able to source goods and services from a limited number of suppliers (or from sole source suppliers) and the transition to new or alternative suppliers, which may be necessitated by reason of such suppliers increasing their rates or by their failure, refusal or inability to deliver or perform, may not be possible or may take a significant amount of time or require significant resources. In addition, tariffs or the threat of tariffs can disrupt supply chains, increase prices and create volatility and uncertainty. A failure, refusal, delay or inability of a supplier to supply Air Canada with goods and services of desirable quality on terms and pricing and within timeframes acceptable to Air Canada may arise as a result of a wide range of causes, many of which are beyond Air Canada's control. Global supply chains have continued to be less resilient, less elastic, and less efficient, including by reason of labour shortages, access to raw materials, economic and geopolitical conditions and transportation logistics. These factors create an uncertain and continually shifting landscape which has and may continue to impact Air Canada and its suppliers.

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

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

Labour costs constitute one of Air Canada's largest operating cost items. There can be no assurance that Air Canada will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial condition. Most of Air Canada's employees are unionized. Air Canada is engaged in collective bargaining with the Canadian Union of Public Employees (CUPE), the union representing its flight attendants, and Unifor, the union representing Aeroplan Contact Centre agents, as well as other bargaining units. As agreements with certain other unions will expire over the next few years, bargaining is expected to commence with them as well. Any future agreements or outcomes of negotiations or arbitrations, including in relation to wages or other labour costs or work rules, may result in increased labour costs or other charges, or terms and conditions restricting or reducing Air Canada's ability to sustain its business objectives or pursue its strategic initiatives, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

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

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

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

In order to operate its business, achieve its goals and remain competitive, Air Canada continually seeks to identify and devise, invest in, implement and pursue strategic, business, technology and other important initiatives, including to source of aircraft, participate in the leisure or lower-cost market, enter into or expand joint venture arrangements, address climate change, enhance revenues, reduce costs, improve business processes, implement new technologies (including artificial intelligence), expand network and capacity, and initiatives seeking to improve and ensure a consistently high-quality customer service experience. Strategic initiatives, including their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond Air Canada's control. Such factors include the need to seek legal or regulatory approvals, the performance of third parties (including suppliers, their products and services), their integration into Air Canada's other activities and processes as well as the adoption and acceptance of these initiatives including by Air Canada's customers, suppliers and personnel. A delay or a failure to sufficiently and successfully identify and devise, invest in or implement any strategic or important initiative could adversely affect Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

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

Financial leverage – Air Canada has a significant amount of financial indebtedness. Air Canada may also not be able to obtain sufficient funds in a timely manner and on acceptable terms to provide adequate liquidity and to finance necessary operating and capital expenditures.

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

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

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

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

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

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

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

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

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

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

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

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

Outbreaks or the threat of outbreaks of viruses or other contagions or infectious diseases, including an epidemic or a pandemic such as COVID-19, influenza, SARS, Ebola, Zika, as well as any government actions, or travel or other advisories relating to same, whether domestic or international or whether relating to Canadian cities or regions or other cities, regions or countries, could have a material adverse effect on demand for air travel and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. During the period from March 2020 until early- to mid-2022, Air Canada and the rest of the global airline industry faced significantly lower traffic than in 2019, and a corresponding decline in revenue and cash flows, as a result of the COVID- 19 pandemic and the travel restrictions imposed in many countries around the world including in Canada. Conditions have improved significantly, however, there can be no assurance that there will not be further impacts. Other disease outbreaks or health threats may occur, and these could materially and adversely affect Air Canada, its business, results from operations and financial condition.

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

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

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

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

While Air Canada seeks to comply with all applicable laws, regulations and administrative requirements, compliance may involve significant judgment in interpreting them. Furthermore, interpretations as well as the application and enforcement of such requirements may evolve due to numerous factors, including decisions by courts, regulators, administrative and other bodies. Compliance (including failure to comply) with current or future domestic and international laws, regulations and administrative requirements, including potentially inconsistent or conflicting laws or regulations, or laws or regulations that disproportionally apply to Canadian airlines or Air Canada specifically, may impose significant costs (including taxes, fines, penalties and/or levies), impediments and/or competitive disadvantages and a failure to comply may result in other claims against Air Canada including class actions. There cannot be any assurance that current or future laws, regulations and administrative requirements will not materially and adversely affect Air Canada, its business, results from operations and financial condition.

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

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

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

Air Canada offers its customers who are Aeroplan Members the opportunity to earn Aeroplan points, which management believes is a significant factor in many customers' decision to travel with Air Canada and contributes to building customer loyalty. The success of the Aeroplan program is dependent on attracting new and retaining current members and on maintaining sufficient accumulation and redemption partners. Increases in redemption rates for outstanding Aeroplan points, failures to adequately operate the Aeroplan program, reductions in the prevailing interchange rates in Canada or the U.S., additional payment card regulation on fees and charges, or interruptions or disruptions of Aeroplan program services, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

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

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

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

The strategic and commercial arrangements with Star Alliance and other airlines, including Lufthansa AG, United Airlines, Air China and Emirates, provide Air Canada with important benefits, including codesharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave Star Alliance or should a Star Alliance or other airlines fail to meet its obligations toward Air Canada, Air Canada, its business, results from operations and financial condition could be materially and adversely affected.

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

Air Canada believes that its success is dependent on the value of its brand and on Air Canada's ability to preserve, grow and leverage that value. The Air Canada brand is recognized throughout the world, and Air Canada has received high ratings in external brand value studies, based in part on consumer perceptions on a variety of subjective qualities. Air Canada believes it has and continues to build an excellent reputation globally for the safety and quality of its services, and for the delivery of a consistently positive passenger experience. Air Canada's reputation and brand could be damaged if they are exposed to significant adverse publicity including through social media. Adverse publicity, whether justified or not, can rapidly spread through social or digital media. To the extent we are subject to, or unable to respond timely and appropriately to adverse publicity, our brand and reputation may be damaged. Any failure to preserve or grow Air Canada's brand, including by reason of the conduct of Air Canada or any of its business partners, suppliers or other third parties, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

In the course of conducting its business, Air Canada is subject to various claims and litigation (including class action claims), including with respect to its contractual arrangements and current or future laws and regulations. Any future claims or litigation could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

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

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

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

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

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

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

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

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

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

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

19. Controls and procedures

Disclosure controls and procedures and internal controls over financial reporting

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

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

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

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

Management's report on disclosure controls and procedures

Management, under the supervision of and with the participation of Air Canada's CEO and CFO, evaluated the effectiveness of Air Canada's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at December 31, 2024, that such disclosure controls and procedures were effective.

Management's report on internal controls over financial reporting

Management, under the supervision of and with the participation of Air Canada's CEO and CFO, evaluated the effectiveness of Air Canada's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2024, Air Canada's internal controls over financial reporting were effective. This evaluation took into consideration Air Canada's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in internal controls over financial reporting

There have been no changes to Air Canada's internal controls over financial reporting during 2024 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

20. Non-GAAP financial measures

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

Air Canada excludes the effect of impairment of assets, if any, when calculating adjusted CASM, adjusted EBITDA, adjusted EBITDA margin, adjusted pre-tax income (loss) and adjusted net income (loss) as it may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful. Air Canada did not record charges for impairment of assets in 2024 or in 2023.

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

With ratification of the collective agreement with ALPA, in the fourth quarter of 2024, Air Canada recorded a one-time pension past service cost of $490 million in the fourth quarter of 2024 as a result of certain pension plan amendments made in conjunction with the collective agreement. Air Canada excluded this charge in computing adjusted CASM, adjusted EBITDA, adjusted pre-tax income and adjusted net income.

Adjusted CASM

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

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

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada had six Boeing 767 dedicated freighter aircraft in service as at December 31, 2024, and seven as at December 31, 2023. 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:

	Fourth Quarter			Full Year		
(Canadian dollars in millions, except where indicated)	2024	2023	Change	2024	2023	Change
Operating expense – GAAP	**$ 5,658**	**$ 5,096**	**$ 562**	**$ 20,992**	**$ 19,554**	**$ 1,438**
Adjusted for:						
Aircraft fuel	(1,154)	(1,391)	237	(5,118)	(5,318)	200
Ground package costs	(208)	(177)	(31)	(782)	(720)	(62)
Freighter costs (excluding fuel)	(50)	(46)	(4)	(163)	(157)	(6)
Provision for contractual lease obligations	-	-	-	(34)	-	(34)
Pension plan amendments	(490)	-	(490)	(490)	-	(490)
Operating expense, adjusted for the above-noted items	**$ 3,756**	**$ 3,482**	**$ 274**	**14,405**	**13,359**	**1,046**
ASMs (millions)	**24,949**	**24,439**	**2.1%**	**104,381**	**99,012**	**5.4%**
Adjusted CASM (cents)	**¢ 15.05**	**¢ 14.25**	**¢ 0.80**	**¢ 13.80**	**¢ 13.49**	**¢ 0.31**

Adjusted EBITDA and adjusted EBITDA margin

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

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

	Fourth Quarter			Full Year		
(Canadian dollars in millions, except where indicated)	2024	2023	Change	2024	2023	Change
Operating income (loss) – GAAP	**$ (254)**	**$ 79**	**$ (333)**	**$ 1,263**	**$ 2,279**	**$ (1,016)**
Add back:						
Depreciation and amortization	460	442	18	1,799	1,703	96
EBITDA	206	521	(315)	3,062	3,982	(920)
Add back:						
Provision for contractual lease obligations	-	-	-	34	-	34
Pension plan amendments	490	-	490	490	-	490
Adjusted EBITDA	**$ 696**	**$ 521**	**$ 175**	**$ 3,586**	**$ 3,982**	**$ (396)**
Operating revenues	**$ 5,404**	**$ 5,175**	**$ 229**	**$ 22,255**	**$ 21,833**	**$ 422**
Operating margin (%)	**(4.7)**	**1.5**	**(6.2) pp**	**5.7**	**10.4**	**(4.7) pp**
Adjusted EBITDA margin (%)	**12.9**	**10.1**	**2.8 pp**	**16.1**	**18.2**	**(2.1) pp**

Adjusted pre-tax income (loss)

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

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

	Fourth Quarter			Full Year		
(Canadian dollars in millions)	2024	2023	Change	2024	2023	Change
Income (loss) before income taxes – GAAP	$ (721)	$ 122	$ (843)	$ 515	$ 2,212	$ (1,697)
Adjusted for:						
Provision for contractual lease obligations	-	-	-	34	-	34
Pension plan amendments	490	-	490	490	-	490
Foreign exchange (gain) loss	372	(72)	444	400	(389)	789
Net interest relating to employee benefits	(6)	(7)	1	(22)	(25)	3
(Gain) loss on financial instruments recorded at fair value	38	(91)	129	(28)	(115)	87
(Gain) loss on debt settlements and modifications	(38)	1	(39)	8	10	(2)
Adjusted pre-tax income (loss)	$ 135	$ (47)	$ 182	$ 1,397	$ 1,693	$ (296)

Adjusted net income (loss) and adjusted earnings (loss) per share – diluted

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

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

	Fourth Quarter			Full Year		
(Canadian dollars in millions)	2024	2023	Change	2024	2023	Change
Net income (loss) – GAAP	$ (644)	$ 184	$ (828)	$ 1,720	$ 2,276	$ (556)
Adjusted for:						
Provision for contractual lease obligations	-	-	-	34	-	34
Pension plan amendments	490	-	490	490	-	490
Foreign exchange (gain) loss	372	(72)	444	400	(389)	789
Net interest relating to employee benefits	(6)	(7)	1	(22)	(25)	3
(Gain) loss on financial instruments recorded at fair value	38	(91)	129	(28)	(115)	87
(Gain) loss on debt settlements and modifications	(38)	1	(39)	8	10	(2)
Income tax, including for the above reconciling items (1)	(119)	(59)	(60)	(1,267)	(44)	(1,223)
Adjusted net income (loss)	$ 93	$ (44)	$ 137	$ 1,335	$ 1,713	$ (378)
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	374	358	16	376	376	-
Adjusted earnings (loss) per share – diluted	$ 0.25	$ (0.12)	$ 0.37	$ 3.55	$ 4.56	$ (1.01)

(1) In the third quarter of 2024, previously unrecognized deferred income tax assets were recognized which included a deferred income tax recovery of $1,154 million recorded in the consolidated statement of operations. This deferred income tax recovery of $1,154 million is removed from the adjusted net income. In 2023, the deferred income tax expense recorded in other comprehensive income related to remeasurements on employee benefit liabilities was offset by a deferred income tax recovery that was recorded through Air Canada's consolidated statement of operations. This recovery was removed from adjusted net income.

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

(In millions)	Fourth Quarter		Full Year	
	2024	2023	2024	2023
Weighted average number of shares outstanding – basic	**355**	**358**	**358**	**358**
Effect of dilution	19	-	18	18
Weighted average number of shares outstanding – diluted	**374**	**358**	**376**	**376**

Free cash flow

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

Net debt

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

21. Glossary

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

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

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

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

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

Aeroplan – Refers to Aeroplan Inc.

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

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

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

CASM – Refers to operating expense per ASM.

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

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

Jazz – Refers to Jazz Aviation LP.

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

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

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

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

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

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

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

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

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

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

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

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

Yield – Refers to average passenger revenue per RPM.

2024 Consolidated **financial statements** and **notes**

February 13, 2025

Statement of management's responsibility for financial reporting

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

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

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

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

Michael Rousseau
President and
Chief Executive Officer

John Di Bert
Executive Vice President and
Chief Financial Officer

February 13, 2025

Independent auditor's report

To the Shareholders of Air Canada

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Air Canada and its subsidiaries (together, the Corporation) as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2024 and 2023;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Passenger and cargo revenue recognition *Refer to note 2 – Basis of presentation and summary of material accounting policies and note 19 – Revenue to the consolidated financial statements.* Passenger and cargo revenues are recognized when the transportation is provided. Total passenger and cargo revenues recognized for the year ended December 31, 2024 amounted to $19,760 million and $991 million, respectively. Such transactions rely on multiple Information Technology (IT) systems and controls to process, record and recognize a high volume of low value revenue transactions through a combination of IT systems and outsourced service providers. We considered this a key audit matter due to the significance of passenger and cargo revenues and the volume of these transactions resulting in significant audit effort to test the revenue recognized.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of internal controls and performed substantive testing on certain aspects related to passenger and cargo revenue recognition, which included the following: – Tested the controls and performed certain substantive procedures over the relevant IT systems that management used to recognize passenger and cargo revenues. – For the IT systems or processes that are outsourced to third party service providers, assessed the assurance reports attesting to the appropriateness and effectiveness of the internal control systems established by the service providers. • Tested a sample of passenger and cargo revenue transactions recorded during the year by inspecting the consideration received and the evidence of when the transportation was provided for passengers or cargo.

Key audit matter	How our audit addressed the key audit matter
Measurement of the total benefit obligations *Refer to note 2 – Basis of presentation and summary of material accounting policies, note 3 – Critical accounting estimates and judgments, and note 9 – Pensions and other benefit liabilities to the consolidated financial statements.* The Corporation has net benefit assets of $628 million, which include total benefit obligations associated with pension benefit obligations of $18,421 million and other employee future benefit obligations of $1,077 million as at December 31, 2024. The total benefit obligations associated with pension benefit obligations and other employee future benefit obligations are actuarially determined annually as at December 31 and are prepared by the Corporation's consulting actuaries (management's experts). The total benefit obligations are determined using the projected unit credit method. Management applied significant judgment in determining the discount rates and mortality assumptions to develop the estimates for the total benefit obligations. We considered this a key audit matter due to the significance of the total benefit obligations and the significant judgment made by management, including the use of management's experts, in determining the discount rates and mortality assumptions, which resulted in a high degree of auditor judgment and subjectivity in performing procedures related to those assumptions. The audit effort involved the use of professionals with specialized skill and knowledge in the field of actuarial services.	Our approach to addressing the matter included the following procedures, among others: • Tested how management developed the estimates for the total benefit obligations which included the following: – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the total benefit obligations associated with pension benefit obligations and other employee future benefit obligations. As a basis for using this work, management's experts' competence, capabilities and objectivity were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluating the methods and assumptions used by management's experts, testing the data used by management's experts and evaluating their findings. – Professionals with specialized skill and knowledge in the field of actuarial services assisted in evaluating the appropriateness of the projected unit credit method and the reasonableness of the discount rates and mortality assumptions. • Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the measurement of the pension benefit obligations and other employee future benefit obligations.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Corporation as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
February 13, 2025

1 CPA auditor, public accountancy permit No. A123498

Consolidated Statements of Financial Position

(Canadian dollars in millions)		December 31, 2024	December 31, 2023
ASSETS			
Current			
Cash and cash equivalents		$ 2,518	$ 2,817
Short-term investments		4,464	5,734
Total cash, cash equivalents and short-term investments		6,982	8,551
Accounts receivable	Note 19	1,089	1,121
Aircraft fuel inventory		192	169
Spare parts and supplies inventory	Note 2P	199	168
Prepaid expenses and other current assets		600	251
Total current assets		9,062	10,260
Investments, deposits and other assets	Note 4	1,080	1,009
Property and equipment	Note 5	13,049	11,907
Pension assets	Note 9	2,535	2,588
Deferred income tax	Note 11	1,039	50
Intangible assets	Note 6	1,170	1,084
Goodwill	Note 7	3,273	3,273
Total assets		**$ 31,208**	**$ 30,171**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 3,718	$ 3,319
Advance ticket sales	Note 19	4,387	4,341
Aeroplan and other deferred revenue	Note 19	1,588	1,473
Current portion of long-term debt and lease liabilities	Note 8	1,755	866
Total current liabilities		11,448	9,999
Long-term debt and lease liabilities	Note 8	10,915	12,996
Aeroplan and other deferred revenue	Note 19	2,952	2,989
Pension and other benefit liabilities	Note 9	1,842	1,875
Maintenance provisions	Note 10	1,431	1,227
Other long-term liabilities		159	216
Deferred income tax	Note 11	73	73
Total liabilities		$ 28,820	$ 29,375
SHAREHOLDERS' EQUITY			
Share capital	Note 12	2,612	2,744
Contributed surplus		149	133
Accumulated other comprehensive loss		(48)	(57)
Deficit		(325)	(2,024)
Total shareholders' equity		2,388	796
Total liabilities and shareholders' equity		**$ 31,208**	**$ 30,171**

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

On behalf of the Board of Directors:

Vagn Sørensen

Chair of the Board of Directors

Christie J.B. Clark

Chair of the Audit, Finance and Risk Committee

Consolidated Statements of Operations

For the year ended December 31 (Canadian dollars in millions except per share figures)		2024	2023
Operating revenues			
Passenger	Note 19	$ 19,760	$ 19,403
Cargo	Note 19	991	924
Other		1,504	1,506
Total revenues		**22,255**	**21,833**
Operating expenses			
Aircraft fuel		5,118	5,318
Wages, salaries and benefits	Note 9	4,880	3,955
Depreciation and amortization	Note 5	1,799	1,703
Airport and navigation fees		1,487	1,418
Aircraft maintenance		1,237	1,083
Sales and distribution costs		1,085	1,097
Capacity purchase fees	Note 2D	860	858
Ground package costs		782	720
Communications and information technology		649	555
Catering and onboard services		637	628
Other	Note 20	2,458	2,219
Total operating expenses		**20,992**	**19,554**
Operating income		**1,263**	**2,279**
Non-operating income (expense)			
Foreign exchange gain (loss)		(400)	389
Interest income		431	416
Interest expense	Note 8	(763)	(944)
Interest capitalized		32	14
Financial instruments recorded at fair value	Note 16	28	115
Loss on debt settlements and modifications	Note 8	(8)	(10)
Other		(68)	(47)
Total non-operating expense		**(748)**	**(67)**
Income before income taxes		**515**	**2,212**
Income tax recovery	Note 11	1,205	64
Net income		**$ 1,720**	**$ 2,276**
Net income per share	Note 14		
Basic earnings per share		$ 4.81	$ 6.35
Diluted earnings per share		$ 4.72	$ 5.96

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

Consolidated Statements of Comprehensive Income

For the year ended December 31 (Canadian dollars in millions)		2024	2023
Comprehensive income			
Net income		$ 1,720	$ 2,276
Other comprehensive income, net of tax:	Note 11		
Items that will not be reclassified to net income			
Remeasurements on net employee benefits	Note 9	300	70
Remeasurements on equity investments	Note 4	9	(11)
Total comprehensive income		**$ 2,029**	**$ 2,335**

Consolidated Statements of Changes in Equity

(Canadian dollars in millions)	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity (deficiency)
January 1, 2023	$ 2,743	$ 118	$ (46)	$ (4,370)	$ (1,555)
Net income	-	-	-	2,276	2,276
Remeasurements on net employee benefits	-	-	-	70	70
Remeasurements on equity investments	-	-	(11)	-	(11)
Total comprehensive income (loss)	-	-	(11)	2,346	2,335
Share-based compensation	-	15	-	-	15
Shares issued (Note 12)	1	-	-	-	1
December 31, 2023	$ 2,744	$ 133	$ (57)	$ (2,024)	$ 796
Net income	-	-	-	1,720	1,720
Remeasurements on net employee benefits	-	-	-	300	300
Remeasurements on equity investments	-	-	9	-	9
Total comprehensive income	-	-	9	2,020	2,029
Share-based compensation	-	16	-	-	16
Shares purchased and cancelled under issuer bid (Note 12)	(155)	-	-	(340)	(495)
Shares issued (Note 12)	1	-	-	-	1
Deferred income tax recognition (Note 11)	22	-	-	19	41
December 31, 2024	$ 2,612	$ 149	$ (48)	$ (325)	$ 2,388

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

Consolidated Statements of Cash Flow

For the year ended December 31 (Canadian dollars in millions)		2024	2023
Cash flows from (used for)			
Operating			
Net income		$ 1,720	$ 2,276
Adjustments to reconcile to net cash from operations			
Deferred income tax	Note 11	(1,235)	(47)
Depreciation and amortization	Note 5	1,799	1,703
Foreign exchange (gain) loss		623	(239)
Employee benefit funding less than expense	Note 9	568	59
Financial instruments recorded at fair value	Note 16	(28)	(115)
Loss on debt settlements and modifications	Note 8	8	10
Change in maintenance provisions		192	56
Changes in non-cash working capital balances		214	711
Other		69	(94)
Net cash flows from operating activities		**3,930**	**4,320**
Financing			
Proceeds from borrowings	Note 8	1,590	84
Repayment of long-term debt and lease liabilities	Note 8	(3,956)	(2,452)
Shares purchased for cancellation	Note 12	(473)	-
Issue of shares	Note 12	1	1
Financing fees	Note 8	(34)	(1)
Net cash flows used in financing activities		**(2,872)**	**(2,368)**
Investing			
Short-term investments, net		633	457
Disposals of long-term investments		2,042	1,261
Purchase of long-term investments		(1,401)	(1,963)
Additions to property, equipment and intangible assets		(2,636)	(1,564)
Other		(1)	(18)
Net cash flows used in investing activities		**(1,363)**	**(1,827)**
Effect of exchange rate changes on cash and cash equivalents		**6**	**(1)**
Increase (decrease) in cash and cash equivalents		**(299)**	**124**
Cash and cash equivalents, beginning of year		2,817	2,693
Cash and cash equivalents, end of year		**$ 2,518**	**$ 2,817**

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

For the years ended December 31, 2024 and 2023
(Canadian dollars except where otherwise indicated)

1. General information

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

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

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

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

2. Basis of presentation and summary of material accounting policies

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

These financial statements were approved for issue by the Board of Directors of the Corporation on February 13, 2025.

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

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

A) BASIS OF MEASUREMENT

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

B) PRINCIPLES OF CONSOLIDATION

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

C) PASSENGER AND CARGO REVENUES

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

D) CAPACITY PURCHASE AGREEMENT

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

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

E) AEROPLAN LOYALTY PROGRAM

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

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

Points Earned with Travel

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

Points Earned through Program Partners

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

Breakage represents the estimated Aeroplan Points that are not expected to be redeemed by Aeroplan members. The amount of revenue recognized related to breakage is based on the number of Aeroplan Points redeemed in a period in relation to the total number of Aeroplan Points expected to be redeemed. The number of Aeroplan Points redeemed in a period also factors into any revised estimate for breakage. Changes in breakage are accounted for as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to passenger revenue; and for subsequent periods, the revised estimate is used.

F) OTHER REVENUES

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

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

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

G) EMPLOYEE BENEFITS

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

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

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

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

The liability in respect of minimum funding requirements, if any, is determined using the projected minimum funding requirements, based on management's best estimates of the actuarially determined funded status of the plan, market discount rates and salary escalation estimates. The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability are recognized immediately in Other comprehensive income and Retained earnings (deficit) without subsequent reclassification to income.

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

H) EMPLOYEE PROFIT SHARING PLANS

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

I) SHARE-BASED COMPENSATION PLANS

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

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

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

Air Canada also maintains an employee share purchase plan. Under this plan, contributions by the Corporation's employees are matched to a specific percentage by the Corporation.

Employees must remain with the Corporation and retain their shares until March 31 of the subsequent year for vesting of the Corporation's contributions. These contributions are expensed in Wages, salaries, and benefits expense over the vesting period.

J) MAINTENANCE AND REPAIRS

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

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

K) OTHER OPERATING EXPENSES

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

L) FINANCIAL INSTRUMENTS

Recognition

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

Classification

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

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

The Corporation has implemented the following classifications:

- Cash and cash equivalents, short-term investments, restricted cash, and long-term investments are classified as assets at fair value through profit and loss and any period change in fair value is recorded through Interest income and Financial instruments recorded at fair value in the consolidated statement of operations, as applicable.
- The equity investment in Chorus is classified as an asset at fair value through other comprehensive income and any period change in fair value is recorded through other comprehensive income in the consolidated statement of comprehensive income, as applicable.
- Accounts receivable and Aircraft-related and other deposits are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.
- Accounts payable, credit facilities, and long-term debt are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of operations, as applicable.

Measurement

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

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

Impairment

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

Derivatives and Hedge Accounting

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

The Corporation applies hedge accounting for designated fuel derivatives. The Corporation has established a hedge ratio of 1:1 for its fuel hedging relationships. Under hedge accounting, to the extent effective, the gain or loss on fuel hedging derivatives is recorded in other comprehensive income. Premiums paid for option contracts and the time value of the option contracts are deferred as a cost of the hedge in other comprehensive income. Amounts accumulated in other comprehensive income are presented as hedging reserve in equity and are reclassified to Aircraft fuel expense when the underlying hedged jet fuel is used. Any ineffective gain or loss on fuel hedging derivatives is recorded in non-operating expense in Financial instruments recorded at fair value.

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

M) FOREIGN CURRENCY TRANSLATION

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

N) INCOME TAXES

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

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

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

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

O) EARNINGS PER SHARE

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

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

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

P) AIRCRAFT FUEL INVENTORY AND SPARE PARTS AND SUPPLIES INVENTORY

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

The Corporation did not recognize any write-downs on inventories or reversals of any previous write-downs during the periods presented. Included in Aircraft maintenance is $78 million related to spare parts and supplies consumed during the year (2023 – $62 million).

Q) PROPERTY AND EQUIPMENT

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

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

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

R) LEASES

Accounting for Leases and Right-of-Use Assets

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

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

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

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

Aircraft Leases

As at December 31, 2024 the Corporation had 80 aircraft under right-of-use leases (75 aircraft as at December 31, 2023) and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada in accordance with the requirements of IFRS 16. Additionally, Air Canada is the lessee in respect of certain aircraft used by its regional carrier, Jazz, providing services under a capacity purchase agreement and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada. As at December 31, 2024, there were 81 aircraft (81 aircraft as at December 31, 2023) operating under these arrangements on behalf of Air Canada.

Property Leases

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

S) INTANGIBLE ASSETS

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

	Estimated Useful Life	Remaining amortization period as at December 31, 2024
International route rights and slots	Indefinite	Not applicable
Marketing-based trade names	Indefinite	Not applicable
Technology-based (internally developed)	5 to 15 years	1 to 11 years
Contract-based (Aeroplan commercial agreements)	11.5 years	6 years

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

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

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

T) GOODWILL

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

U) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

V) PROVISIONS

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

W) SEGMENT REPORTING

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

X) ACCOUNTING STANDARDS ADOPTED IN 2024

Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

In October 2022, the IASB published amendments to the Classification of Liabilities as Current or Non-current in IAS 1 Presentation of Financial Statements. The amendments aim to improve the information companies provide when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2024. The Corporation adopted this amendment in the first quarter of 2024 with no impact to the Corporation's consolidated statement of financial position.

IAS 12 Income Taxes

In May 2023, the IASB issued an amendment to IAS 12. The amendment addresses accounting for the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation for Economic Co-operation and Development. The objective of the tax reform is to ensure that large multinational enterprises are subject to a minimum income tax rate of 15% in each jurisdiction they operate. The amendment to IAS 12 includes temporary mandatory relief from recognizing and disclosing deferred taxes related to the implementation of Pillar Two global minimum tax rules.

In June 2024, the Global Minimum Tax Act was enacted in Canada which is a jurisdiction where the Corporation has a constituent entity for the purposes of Pillar Two. The Corporation adopted the amendments to IAS 12 in the second quarter of 2024 and applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. This exception has been applied retrospectively but no adjustments to previously reported figures were required. There is no material impact for the year ended December 31, 2024.

Y) ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The following accounting standards and amendments to accounting standards issued by the IASB have not yet been adopted by the Corporation. The Corporation is evaluating the impact of these standards and amendments on its consolidated financial statements.

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements but carries forward many of the requirements from IAS 1. The standard introduces new defined subtotals to be presented in the consolidated statements of operations, disclosure of management-defined performance measures related to the income statement and requirements for grouping of information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with earlier adoption permitted.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The narrow scope amendments clarify classification guidance for financial assets with environmental, social and corporate governance features; and clarify the date on which a financial asset or financial liability is derecognized when using electronic payment systems. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted.

3. Critical accounting estimates and judgments

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

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

Impairment Considerations on Long-lived Assets

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

Employee Future Benefits

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

Aeroplan Loyalty Program

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

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

As at December 31, 2024, the Aeroplan Points deferred revenue balance was $3,785 million. For the purposes of sensitivity analysis, a 1% change in the number of outstanding Points estimated to be redeemed would result in an approximate impact of $38 million on revenue with a corresponding adjustment to Aeroplan deferred revenue.

Passenger revenues - Breakage

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

Depreciation and Amortization Period for Long-lived Assets

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

Maintenance Provisions

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

Income Taxes

Since 2020, the net deferred income tax assets related to unused tax losses and other deductible temporary differences have not been recognized. As a result of the COVID-19 pandemic, there was considerable negative evidence relating to losses that were incurred at that time and assumptions as to the timing of reversal of temporary differences including expectations about the future results of operations and future cash flows.

During the third quarter of 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Refer to Note 11 Income taxes for additional information on the recognition of deferred income tax assets.

4. Investments, deposits and other assets

(Canadian dollars in millions)	2024	2023
Long-term investments	$ 770	$ 744
Investment in Chorus (a)	49	40
Restricted cash (b)	104	89
Aircraft related deposit	53	47
Prepayments under maintenance agreements	60	47
Other investments	38	36
Other deposits	6	6
	$ 1,080	**$ 1,009**

a) The investment represents Air Canada's holding of 15,561,600 class B voting shares in the capital of Chorus.

b) Restricted cash represents funds held in trust with various financial institutions as collateral for letters of credit and other items.

5. Property and equipment

(Canadian dollars in millions)	December 31, 2024 Cost	December 31, 2024 Accumulated depreciation	December 31, 2024 Net book value	December 31, 2023 Cost	December 31, 2023 Accumulated depreciation	December 31, 2023 Net book value
Owned tangible assets						
Aircraft and flight equipment	$ 16,362	$ 7,416	$ 8,946	$ 15,589	$ 6,986	$ 8,603
Buildings and leasehold improvements	1,225	736	489	1,122	676	446
Ground and other equipment	809	515	294	697	488	209
Purchase deposits and assets under development	1,414	-	1,414	685	-	685
Owned tangible assets	**$ 19,810**	**$ 8,667**	**$ 11,143**	**$ 18,093**	**$ 8,150**	**$ 9,943**
Right-of-use assets						
Air Canada aircraft	$ 4,088	$ 2,905	$ 1,183	$ 4,117	$ 2,966	$ 1,151
Regional aircraft	1,598	1,206	392	1,591	1,130	461
Land and buildings	610	279	331	601	249	352
Right-of-use assets	**$ 6,296**	**$ 4,390**	**$ 1,906**	**$ 6,309**	**$ 4,345**	**$ 1,964**
Property and equipment	**$ 26,106**	**$ 13,057**	**$ 13,049**	**$ 24,402**	**$ 12,495**	**$ 11,907**

Additions to owned aircraft in 2024 included one new Airbus A220 and one new Boeing 787-9. Additions through the purchase of leased aircraft included two Airbus A330. Additions to right-of-use assets included the delivery of one new Boeing 737-8 aircraft. Additions to owned aircraft in 2023 included one new Airbus A220 and one new Boeing 787-9. Additions in 2023 through the purchase of leased aircraft included three Airbus A321, one Boeing 777-300ER, eight Mitsubishi CRJ-200 and 10 Mitsubishi CRJ-900.

Included in aircraft and flight equipment are 33 aircraft and 13 spare engines (2023 – 28 aircraft and 13 spare engines) which are leased to Jazz with a cost of $590 million (2023 – $485 million) less accumulated depreciation of $335 million (2023 – $252 million) for a net book value of $255 million (2023 – $233 million). Depreciation expense for 2024 for these aircraft and flight equipment amounted to $59 million (2023 – $60 million).

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

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

(Canadian dollars in millions)	January 1, 2023	Additions	Reclass	Disposals	Depreciation	December 31, 2023
Owned tangible assets						
Aircraft and flight equipment	$ 8,625	$ 764	$ 171	$ (5)	$ (952)	$ 8,603
Buildings and leasehold improvements	445	1	48	-	(48)	446
Ground and other equipment	173	67	3	-	(34)	209
Purchase deposits and assets under development	470	437	(222)	-	-	685
Owned tangible assets	$ 9,713	$ 1,269	$ -	$ (5)	$ (1,034)	$ 9,943
Right-of-use assets						
Air Canada aircraft	$ 1,292	$ 231	$ -	$ -	$ (372)	$ 1,151
Regional aircraft	588	5	-	-	(132)	461
Land and buildings	357	23	-	-	(28)	352
Right-of-use assets	$ 2,237	$ 259	$ -	$ -	$ (532)	$ 1,964
Property and equipment	$ 11,950	$ 1,528	$ -	$ (5)	$ (1,566)	$ 11,907

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

(Canadian dollars in millions)	2024	2023
Aircraft and flight equipment	$ 1,023	$ 952
Buildings and leasehold improvements	49	48
Ground and other equipment	41	34
Owned tangible assets	**1,113**	**1,034**
Air Canada aircraft	391	372
Regional aircraft	115	132
Land and buildings	29	28
Right-of-use assets	**535**	**532**
Property and equipment	**1,648**	**1,566**
Spare part and supplies inventory	15	11
Intangible assets	136	126
Depreciation and amortization	**$ 1,799**	**$ 1,703**

6. Intangible assets

(Canadian dollars in millions)	International route rights and slots	Contract-based	Marketing-based trade names	Technology-based (internally developed)	Total
Year ended December 31, 2023					
At January 1, 2023	$ 97	$ 148	$ 178	$ 631	$ 1,054
Additions	-	-	-	156	156
Amortization	-	(19)	-	(107)	(126)
At December 31, 2023	$ 97	$ 129	$ 178	$ 680	$ 1,084
At December 31, 2023					
Cost	$ 97	$ 225	$ 178	$ 1,259	$ 1,759
Accumulated amortization	-	(96)	-	(579)	(675)
	$ 97	$ 129	$ 178	$ 680	$ 1,084
Year ended December 31, 2024					
At January 1, 2024	$ 97	$ 129	$ 178	$ 680	$ 1,084
Additions	-	-	-	222	222
Amortization	-	(20)	-	(116)	(136)
At December 31, 2024	$ 97	$ 109	$ 178	$ 786	$ 1,170
At December 31, 2024					
Cost	$ 97	$ 225	$ 178	$ 1,425	$ 1,925
Accumulated amortization	-	(116)	-	(639)	(755)
	$ 97	$ 109	$ 178	$ 786	$ 1,170

In 2024, technology-based assets with cost and accumulated amortization of $56 million (2023 – $3 million) were retired.

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

Impairment Assessment of Indefinite Lived Intangibles

An assessment of the recoverable amount of the Corporation's cash-generating units compared to their carrying values was performed based on cash flow projections. This review was also performed in conjunction with the annual impairment review conducted on all intangible assets that have an indefinite life. The allocation of the indefinite lived intangible assets to the cash-generating units was $172 million to wide-body aircraft and $103 million to narrow-body aircraft. The recoverable amount of the cash-generating units has been measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model would represent a level 3 fair value measurement within the

IFRS 13 fair value hierarchy. The cash flows are management's best projections using current and anticipated market conditions covering a five-year period.

The recoverable amount of both cash-generating units exceeded their respective carrying values by an aggregate amount of approximately $13 billion. Management considered reasonably possible changes in key assumptions using multiple modelling scenarios and sensitivity analysis and determined such changes would not cause the recoverable amount of each CGU to be less than their respective carrying value. In addition, management has updated the impairment review to take into account the most recent projections from the Corporation's annual business plan.

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

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

7. Goodwill

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

In assessing the goodwill for impairment, the Corporation compares the aggregate recoverable amount consisting of the sum of its quoted equity market capitalization and the fair value of its debt to the carrying value of its net assets excluding long-term debt. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition, including as a result of the reviews performed as at December 31, 2024 and 2023. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

8. Long-term debt and lease liabilities

	Final Maturity	Weighted Average Interest Rate (%)	December 31, 2024 (Canadian dollars in millions)	December 31, 2023 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2025 – 2030	5.11	$ 2,930	$ 2,877
Floating rate U.S. dollar financing	2027	6.74	263	296
Fixed rate CDN dollar financing	2026 – 2030	3.78	147	165
Fixed rate Japanese yen financing	2027	1.84	107	110
Convertible notes (b)	2025	4.00	381	327
Credit facility – CDN dollar (c)	2028	1.21	1,131	1,091
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar (d)	2026	3.88	1,726	1,589
Senior secured credit facility – U.S. dollar (d)	2031	6.34	1,641	3,000
Long-term debt		**4.53**	**10,326**	**11,455**
Lease liabilities				
Air Canada aircraft	2025 – 2036	5.59	1,381	1,377
Regional aircraft	2025 – 2035	5.51	619	711
Land and buildings	2025 – 2078	5.59	433	449
Lease liabilities (e)		**5.57**	**2,433**	**2,537**
Total debt and lease liabilities excluding unamortized debt issuance costs and discounts		**4.72**	**12,759**	**13,992**
Unamortized debt issuance costs and discounts			(89)	(130)
Total debt and lease liabilities			**12,670**	**13,862**
Current portion – Long-term debt			(1,163)	(359)
Current portion – Air Canada aircraft			(411)	(337)
Current portion – Regional aircraft			(153)	(144)
Current portion – Land and buildings			(28)	(26)
Total current portion			(1,755)	(866)
Long-term debt and lease liabilities			**$ 10,915**	**$ 12,996**

(a) Aircraft financing (US$2,220 million, CDN $147 million and JPY ¥11,743 million) (2023 – US$2,396 million, CDN $165 million and JPY ¥11,749 million) is secured primarily by specific aircraft with a carrying value of $3,585 million (2023 – $3,774 million). For the majority of the financing, principal and interest is repayable quarterly until maturity and can be repaid at any time with the payment of applicable fees. US$26 million of the financing is supported by a loan guarantee by the Export-Import Bank of the United States.

In 2023, Air Canada drew on financing for the final two Airbus A220 aircraft under a committed secured facility. The financing on these two aircraft was subsequently prepaid when the Corporation prepaid loans of $1,112 million which had been used to finance the acquisition of 33 Airbus A220-300 aircraft. Financing of $164 million previously used to fund the acquisition of five Boeing 787-8 aircraft was also prepaid. A loss of $10 million was recorded on these debt settlements.

(b) In June 2020, Air Canada closed US$748 million ($1,011 million) of convertible unsecured notes ("Convertible Notes"), for net proceeds of $986 million. The Convertible Notes bear interest semi-annually in arrears at a rate of 4.0% per annum and will mature on July 1, 2025, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible at the Corporation's election, into cash, or into Class A Variable Voting shares and/or Class B Voting shares of the Corporation, or a combination of cash and shares. The Convertible Notes are convertible prior to the close of business on the business day immediately preceding March 1, 2025 only under the circumstances and subject to satisfaction of the conversion conditions set out in the indenture for the Convertible Notes, and at any time on or after March 1, 2025 until the close of business on June 27, 2025 (being the second scheduled trading day immediately preceding the July 1, 2025 maturity date), regardless of the foregoing conditions, in each case at the option of the noteholders. The conversion rate of the Convertible Notes is 65.1337 shares per US$1,000 principal amount of Convertible Notes, or a conversion price of approximately US$15.35 per share, subject to adjustment in certain events in accordance with the indenture.

The Corporation's option to deliver cash or a combination of cash and shares on the conversion date in lieu of shares (based on the daily conversion values for 40 consecutive trading days) gives rise to an embedded derivative financial liability measured separately at fair value through profit or loss. The carrying value of the underlying notes is accreted to their face value using the effective interest method, which results in an effective interest rate of 10.76%. The fair value of the embedded derivative was $320 million at initial recognition. At December 31, 2024, the fair value was $45 million (2023 - $56 million) and the Corporation recorded a gain of $11 million for the year ended December 31, 2024 ($64 million gain for the year 2023). Refer to Note 16.

In 2022, the Corporation repurchased $635 million (US$473 million) aggregate principal amount of its outstanding 4% Convertible Notes. As at December 31, 2024, $394 million (US$274 million) aggregate principal amount of Convertible Notes remains outstanding (US$274 million at December 31, 2023).

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

The debt and equity instruments issued under the financing agreement with the Government of Canada were measured at fair value at inception. The difference between fair value and proceeds received was recognized for accounting purposes as a government grant. The deferred grant income recorded at the inception of the agreement and taking into account the amounts drawn under the ticket refund facility up to December 31, 2021, was $138 million. This deferred grant income reflects the aggregate net fair value adjustments of the ticket refund facility, the shares issued and the vested warrants (which were purchased and cancelled with settlement completed in January 2022) and was amortized into Other revenues on a straight line basis over three years. The amortization period was based on the Corporation's approximation of the expected timing of the costs for which the grant is intended to compensate. During 2024, grant income of $12 million (2023 – $50 million) was recognized in Other revenues.

(d) In August 2021, Air Canada completed a private offering of $2.0 billion of 4.625% senior secured notes due 2029 (the "Canadian Dollar Notes") and US$1.2 billion of 3.875% senior secured notes due 2026 (the "US Dollar Notes", and together with the Canadian Dollar Notes, the "Senior Secured Notes"). Air Canada also closed a US$2.9 billion senior secured credit facility, comprised of a US$2.3 billion term loan B maturing in 2028 (the "Term Loan"), together with a undrawn US$600 million revolving credit facility maturing in 2025 (the "Revolving Facility" and, together with the Term Loan, the "Senior Secured Credit Facilities").

In March 2024, Air Canada entered into US$2.15 billion senior secured credit facilities, comprised of a US$1.175 billion term loan B maturing in 2031 and a US$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US$1.09 billion, were applied to refinance all of Air Canada's indebtedness outstanding under its previous US$2.3 billion term loan B. The new term loan B had interest at SOFR (Secured Overnight Financing Rate) plus 250 basis points. The new revolving facility, which is the result of an increase and extension of Air Canada's previous US$600 million revolving credit facility previously maturing in 2025 (and discussed above) is undrawn as of December 31, 2024. Concurrently with the closing of these new senior credit facilities, Air Canada also terminated its undrawn $200 million revolving credit facility maturing in 2026. The Corporation recorded a loss of $46 million on debt settlements related to the write-off of unamortized debt issuance costs associated with the extinguished debt instruments

In November 2024, Air Canada completed a repricing of its US$1.175 billion term loan B, reducing the interest rate by 50 basis points, to an interest rate of 2% over SOFR. The Corporation recorded a $38 million gain on debt modification related to this transaction.

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

(e) Lease liabilities, related to facilities and aircraft, total $2,433 million ($391 million, US$1,404 million and GBP £12 million) (2023 – $2,537 million ($406 million, US$1,593 million and GBP £13 million)). The carrying value of aircraft and facilities under lease liabilities amounted to $1,679 million and $331 million respectively (2023 – $1,638 million and $352 million).

Cash interest paid on Long-term debt and lease liabilities in 2024 by the Corporation was $696 million (2023 – $858 million).

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	2024	2023
Interest on debt	$ 621	$ 791
Interest on lease liabilities		
Air Canada aircraft	82	85
Regional aircraft	36	45
Land and buildings	24	23
Interest expense	**$ 763**	**$ 944**

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

(Canadian dollars in millions)	2024	2023
Short-term leases	$ 16	$ 25
Variable lease payments not included in lease liabilities	65	43
Expense related to leases (included in Other operating expenses)	**$ 81**	**$ 68**

Total cash outflows for payments on lease liabilities was $678 million for the year ended December 31, 2024 (2023 – $679 million), of which $536 million was for principal repayments (2023 – $526 million).

Maturity Analysis

Principal and interest repayment requirements as at December 31, 2024 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the December 31, 2024 closing rate of CDN$1.4384.

Principal (Canadian dollars in millions)	2025	2026	2027	2028	2029	Thereafter	Total
Long-term debt obligations(1)	$ 1,176	$ 2,528	$ 1,102	$ 1,377	$ 2,309	$ 2,026	$10,518
Air Canada aircraft	411	347	257	183	91	92	1,381
Regional aircraft	153	54	43	42	42	285	619
Land and buildings	28	28	29	28	21	299	433
Lease liabilities	592	429	329	253	154	676	2,433
Total long-term debt and lease liabilities	**$ 1,768**	**$ 2,957**	**$ 1,431**	**$ 1,630**	**$ 2,463**	**$ 2,702**	**$12,951**

Interest (Canadian dollars in millions)	2025	2026	2027	2028	2029	Thereafter	Total
Long-term debt obligations(1)	$ 458	$ 397	$ 273	$ 234	$ 218	$ 134	$ 1,714
Air Canada aircraft	71	51	33	21	10	10	196
Regional aircraft	29	22	19	17	15	45	147
Land and buildings	23	21	20	18	17	204	303
Lease liabilities	123	94	72	56	42	259	646
Total long-term debt and lease liabilities	**$ 581**	**$ 491**	**$ 345**	**$ 290**	**$ 260**	**$ 393**	**$ 2,360**

(1) Assumes the principal balance of the convertible notes, $394 million (US$274 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of $1,273 million for the unsecured credit facility and $1,677 million (US$1,166 million) for the term loan B is included and the carrying value is described in Note 8(c) and 8(d) respectively.

Principal repayments in the table above exclude discounts and transaction costs of $89 million which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.

Cash Flows from Financing Activities

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

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

	Cash Flows				Non-Cash Changes			
(Canadian dollars in millions)	Jan. 1, 2023	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	Dec. 31, 2023
Long-term debt	$ 13,445	$ 84	$ (1,926)	$ -	$ (208)	$ 60	$ -	$ 11,455
Air Canada aircraft	1,667	-	(343)	-	(34)	-	87	1,377
Regional aircraft	917	-	(154)	-	(17)	-	(35)	711
Land and buildings	454	-	(29)	-	-	-	24	449
Lease liabilities	3,038	-	(526)	-	(51)	-	76	2,537
Unamortized debt issuance costs and other adjustments	(177)	-	-	(1)	-	48	-	(130)
Total liabilities from financing activities	**$ 16,306**	**$ 84**	**$(2,452)**	**$ (1)**	**$ (259)**	**$ 108**	**$ 76**	**$ 13,862**

9. Pensions and other benefit liabilities

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

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

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

Pension Plan Cash Funding Obligations

As at January 1, 2024, the aggregate solvency surplus in the Domestic Registered Plans was $4.1 billion which takes into account certain plan amendments made in conjunction with the Air Line Pilots Association (ALPA) collective agreement. The next required valuation to be made as at January 1, 2025 will be completed in the first half of 2025. With the Corporation's Domestic Registered Plans in a solvency surplus position as at January 1, 2024, past service contributions were not required in 2024. In addition, in accordance with legislation and applicable plan rules, the excess over 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contributions to a defined contribution component within the same pension plan. Based on that, and including the international and supplemental plans, the total employer pension funding contributions during 2024 amounted to $102 million (net employer contributions of $72 million reflect the $30 million of surplus used to fund employer contributions in defined contribution components of the same plans). Pension funding contributions for 2025 are expected to be $66 million.

Benefit Obligations and Plan Assets

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

	Pension Benefits		Other Employee Future Benefits		Total	
(Canadian dollars in millions)	2024	2023	2024	2023	2024	2023
Non-current assets						
Pension assets	$ 2,535	$ 2,588	$ -	$ -	$ 2,535	$ 2,588
Current liabilities						
Accounts payable and accrued liabilities	-	-	65	65	65	65
Non-current liabilities						
Pension and other benefit liabilities	830	842	1,012	1,033	1,842	1,875
Net benefit assets (obligations)	**$ 1,705**	**$ 1,746**	**$ (1,077)**	**$ (1,098)**	**$ 628**	**$ 648**

The current portion of the net benefit obligation represents an estimate of other employee future benefits claims to be paid during 2025.

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

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2024	2023	2024	2023
Change in benefit obligations				
Benefit obligations at beginning of year	$ 18,309	$ 16,927	$ 1,098	$ 1,007
Current service cost	190	162	25	32
Past service cost (a)	490	-	(2)	(2)
Interest cost	845	879	51	53
Employees' contributions	76	73	-	-
Benefits paid	(1,027)	(1,038)	(43)	(46)
Effect of transfers	23	-	-	-
Settlement payments for UK plan	(283)	-	-	-
Remeasurements:				
Experience loss (gain)	(33)	5	(18)	(19)
Loss (gain) from change in demographic assumptions	(14)	-	(27)	-
Loss (gain) from change in financial assumptions	(194)	1,297	(19)	76
Foreign exchange loss (gain)	39	4	12	(3)
Total benefit obligations	18,421	18,309	1,077	1,098
Change in plan assets				
Fair value of plan assets at beginning of year	21,949	21,378	-	-
Return on plan assets, excluding amounts included in Net financing expense	258	373	-	-
Interest income	1,005	1,105	-	-
Employer contributions	72	61	43	46
Employees' contributions	76	73	-	-
Benefits paid	(1,027)	(1,038)	(43)	(46)
Settlement payments for UK plan	(300)	-	-	-
Administrative expenses paid from plan assets	(8)	(8)	-	-
Foreign exchange gain	36	5	-	-
Total plan assets	22,061	21,949	-	-
Surplus (deficit) at end of year	**3,640**	**3,640**	**(1,077)**	**(1,098)**
Asset ceiling / additional minimum funding liability	1,935	1,894	-	-
Net benefit assets (obligations)	**$ 1,705**	**$ 1,746**	**$ (1,077)**	**$ (1,098)**

The actual return on plan assets was a gain of $1,263 million (2023 – $1,478 million gain).

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

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

(Canadian dollars in millions)	2024	2023
Domestic Registered Plans	$ 7	$ 7
International plans	51	53
Supplementary plans	772	782
	$ 830	**$ 842**

The weighted average duration of the defined benefit obligation is 12.6 years (2023 – 12.7 years).

Pension and Other Employee Future Benefit Expense

The Corporation has recorded net defined benefit pension and other employee future benefits expense as follows:

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2024	2023	2024	2023
Consolidated Statement of Operations				
Components of cost				
Current service cost	$ 190	$ 162	$ 25	$ 32
Past service cost (a)	490	-	(2)	(2)
Administrative and other expenses	8	8	-	-
Actuarial losses (gains), including foreign exchange	-	-	(6)	(9)
Total cost recognized in Wages, salaries and benefits	**$ 688**	**$ 170**	**$ 17**	**$ 21**
Net interest relating to employee benefits in Non-operating-other	**$ (74)**	**$ (78)**	**$ 52**	**$ 53**
Total cost recognized in statement of operations	**$ 614**	**$ 92**	**$ 69**	**$ 74**
Consolidated Other Comprehensive (Income) Loss				
Remeasurements:				
Experience loss (gain), including foreign exchange	(30)	4	(4)	(14)
(Gain) from change in demographic assumptions	(14)	-	(27)	-
Loss (gain) from change in financial assumptions	(194)	1,297	(15)	75
Return on plan assets	(258)	(395)	-	-
Change in asset ceiling	(46)	(1,085)	-	-
Total cost (income) recognized in OCI	**$ (542)**	**$ (179)**	**$ (46)**	**$ 61**

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

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

(Canadian dollars in millions)	2024	2023
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations		
Wages, salaries and benefits	$ 705	$ 191
Net interest relating to employee benefit liabilities	(22)	(25)
	$ 683	$ 166
Employee benefit funding by the Corporation		
Pension benefits	$ 72	$ 61
Other employee benefits	43	46
	$ 115	$ 107
Employee benefit funding less than expense	**$ 568**	**$ 59**

Composition of Defined Benefit Pension Plan Assets

Domestic Registered Plans

The composition of the Domestic Registered Plan assets and the target allocation are the following:

	2024	2023	Target Allocation
Fixed income investments	54%	62%	60%
Canadian equities	2%	2%	2%
Foreign equities	3%	3%	3%
Alternative investments	41%	33%	35%
	100%	**100%**	**100%**

For the Domestic Registered Plan assets, approximately 59% of assets as of December 31, 2024 have a quoted market price in an active market. Assets that do not have a quoted market price in an active market are mainly investments in privately held entities. The asset composition in the table represents the allocation of plan assets to each asset type.

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2023 – 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 the Corporation's Canadian-based unions. The trust arrangement provides that proceeds of any sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize. With the Corporation's Domestic Registered Plans now in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust have a fair value of $393 million at December 31, 2024 (2023 – $330 million), although after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If certain conditions are met, the trust would gradually sell shares up to the end of 2037, and the net proceeds from these sales would be used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. There are several conditions to the completion of the agreement in principle and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. While the satisfaction of the conditions is being pursued, there can be no assurance that these or any other conditions will be satisfied. The financial statements do not reflect any accounting consequences related to this, as these would only be determined upon the conditions and required approvals being met.

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

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

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

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

As at December 31, 2024, approximately 90% of the Corporation's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk related to its actuarial liabilities. This comprises a combination of financial instruments including, but not limited to, bonds, bond repurchase and reverse repurchase agreements, bond forwards, bond futures and interest rate swaps.

Derivatives are permitted provided that they are used for managing a particular risk (including interest rate risk related to pension liabilities) or to create exposures to given markets and currencies. Counterparty credit risk associated with such financial instruments is mitigated by receiving collateral from counterparties based on collateralization agreements, as well as by monitoring the counterparties' credit ratings (minimum credit rating of A) and ensuring compliance with the SIP&P. The fair value of these derivative instruments is included in the fixed income investments in the asset composition table and is not a significant component of the fixed income fair values of the portfolio.

The trusts for the supplemental plans are invested 50% in a mix of indexed equity investments and alternative investments, in accordance with their applicable SIP&P, with the remaining 50% held by the Canada Revenue Agency as a refundable tax, in accordance with tax legislation. Due to unrealized gains and losses on invested assets, the market value of assets could deviate from this allocation from time to time.

Risks

Through its defined benefit pension plans, the Corporation is exposed to a number of risks, the most significant of which are detailed below:

Asset risk

Asset risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Asset risk comprises currency risk, credit risk, and other price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is mitigated through implementation of hedging strategies. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is mitigated by receiving collateral from counterparties based on collateralization agreements and by monitoring the issuers' credit risk. Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is mitigated through proper diversification of plan assets.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans' bond holdings. As at December 31, 2024, approximately 90% of the Corporation's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate risk (discount rate risk).

Funding risk

Adverse changes in the value of plan assets or in interest rates, and therefore in the discount rate used to value liabilities, could have a significant impact on pension plan solvency valuations and future cash funding requirements.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Assumptions

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

Discount Rate

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

Future Increases in Compensation

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

Mortality Assumptions

Mortality tables and improvement scales issued by the Canadian Institute of Actuaries (revised in 2014) were taken into account in selecting management's best estimate mortality assumption used to calculate the accrued benefit obligation as at December 31, 2024 and 2023.

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

	Pension Benefits		Other Employee Future Benefits	
	2024	2023	2024	2023
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	4.64%	5.28%	4.64%	5.28%
Service cost for the year ended December 31	4.65%	5.28%	4.65%	5.28%
Accrued benefit obligation as at December 31	4.70%	4.64%	4.70%	4.64%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.75%	2.75%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.75%	Not applicable	Not applicable

Sensitivity Analysis

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

Sensitivity analysis on 2024 pension expense, net interest relating to pension benefit liabilities and pension obligation, based on different actuarial assumptions with respect to discount rate is set out below. The effects on each pension plan of a change in an assumption are weighted proportionately to the total plan obligation to determine the total impact for each assumption presented.

	0.25 Percentage Point	
(Canadian dollars in millions)	Decrease	Increase
Discount rate on obligation assumption		
Pension expense	$ 34	$ (32)
Net interest relating to pension benefit liabilities	11	(9)
	$ 45	**$ (41)**
Increase (decrease) in pension obligation	**$ 604**	**$ (571)**

The increase (decrease) in the pension obligation for a 0.25 percentage point change in the discount rate relates to the gross amount of the pension liabilities and is before the impact of any change in plan assets. As at December 31, 2024, approximately 90% of the Corporation's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk.

An increase of one year in life expectancy would increase the pension benefit obligation by $433 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2024 and thereafter, unchanged from the 2023 assumption. A one percentage point increase in assumed health care trend rates would have increased the total of current service and interest costs by $5 million and the obligation by $61 million. A one percentage point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by $4 million and the obligation by $64 million.

A 0.25 percentage point decrease in discount rate for other employee future benefits would have increased the total of current and interest costs by less than $1 million and the obligation by $34 million. A 0.25 percentage point increase in discount rate would have decreased the total of current and interest costs by less than $1 million and the obligation by $32 million.

Defined Contribution Pension Plans

Certain of the Corporation's management, administrative and unionized employees participate in a defined contribution pension plan, a defined contribution component of a plan which also includes a defined benefit component or a multi-employer plan which are accounted for as defined contribution plans. The Corporation contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group and for some groups, based on the number of years of service. As permitted by legislation and applicable plan rules, surplus in the defined benefit component can be used to cover the employer contributions in the defined contribution component of such plan. As such, $30 million of surplus in the defined benefit components of the Domestic Registered Plans was used to cover the employer contributions in the defined contribution components during 2024 (2023 – $25 million).

The Corporation's expense for these pension plans amounted to $115 million for the year ended December 31, 2024 (2023 – $85 million). Net of the surplus in the defined benefit components which can be used to fund the employer contribution to a defined contribution component within the same pension plan, expected total employer contributions for 2025 are $92 million.

10. Provisions for other liabilities

The following table provides a continuity schedule of all recorded provisions. Current provisions are recorded in Accounts payable and accrued liabilities.

(Canadian dollars in millions)	Maintenance [(a)]	Asset retirement [(b)]	Litigation	Total provisions
At December 31, 2023				
Current	$ 187	$ -	$ 38	$ 225
Non-current	1,227	29	-	1,256
	$ 1,414	**$ 29**	**$ 38**	**$ 1,481**
Provisions arising during the year	$ 174	34	-	208
Amounts utilized	(60)	-	(1)	(61)
Changes in estimated costs	(46)	5	3	(38)
Accretion expense	64	1	13	78
Foreign exchange loss	127	-	-	127
At December 31, 2024	**$ 1,673**	**$ 69**	**$ 53**	**$ 1,795**
Current	$ 242	$ 34	$ 53	$ 329
Non-current	1,431	35	-	1,466
	$ 1,673	**$ 69**	**$ 53**	**$ 1,795**

(a) Maintenance provisions relate to the provision for the costs to meet the contractual return conditions on aircraft under operating leases. The provision relates to leases with expiry dates ranging from 2025 to 2036 with the average remaining lease term of approximately 3 years. The maintenance provisions take into account current costs of maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Assuming the aggregate cost for return conditions increases by 5%, holding all other factors constant, there would be a cumulative balance sheet adjustment to increase the provision by $83 million at December 31, 2024 and an increase to maintenance expense in 2025 of approximately $9 million. Expected future cash flows to settle the obligation are discounted. If the discount rates were to increase by 1%, holding all other factors constant, there would be a cumulative balance sheet adjustment to decrease the provision by $27 million at December 31, 2024. An equivalent but opposite movement in the discount rate would result in a similar impact in the opposite direction.

(b) Under the terms of certain land and facilities leases, the Corporation has an obligation to restore the land to vacant condition at the end of the lease and to rectify any environmental damage for which it is responsible. The related leases expire over terms ranging from 2025 to 2078. These provisions are based on numerous assumptions including the overall cost of decommissioning and remediation and the selection of alternative decommissioning and remediation approaches. The non-current provision is recorded in Other long-term liabilities. A charge of $34 million was recorded in 2024 in other operating expenses related to estimated costs related to contractual lease obligations.

11. Income taxes

Income Tax Recovery

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

(Canadian dollars in millions)	2024	2023
Current income tax recovery (expense)	$ (30)	$ 17
Deferred income tax recovery	1,235	47
Income tax recovery	**$ 1,205**	**$ 64**

For the year ended December 31, 2024, the Corporation recognized in the consolidated statement of operations $1,503 million ($638 million in 2023) of previously unrecognized deferred income tax assets, and ($268) million (($591) million in 2023) related to the origination and reversal of temporary differences.

The income tax recovery (expense) differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

(Canadian dollars in millions)	2024	2023
Income before income taxes	$ 515	$ 2,212
Statutory income tax rate based on combined federal and provincial rates	26.49%	26.46%
Income tax (expense) recovery based on statutory tax rates	**(136)**	**(585)**
Effects of:		
Non-taxable (non-deductible) portion of capital gains (losses)	(70)	26
Recognition of deferred income tax assets	1,503	638
Unrecognized capital losses	(69)	-
Non-deductible items	(30)	(23)
Other	7	8
Income tax recovery	**$ 1,205**	**$ 64**

The applicable statutory tax rate is 26.49% (2023 - 26.46%). The Corporation's applicable tax rate is the Canadian combined tax rate applicable in the jurisdiction in which the Corporation operates. The income tax recovery in the consolidated statement of operations differs from the amount that would have resulted from applying the statutory income tax rate to the income before income taxes in the consolidated statement of operations primarily due to recognizing only certain of the deferred income tax assets prior to the third quarter of 2024, as described further below.

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

(Canadian dollars in millions)	2024	2023
Remeasurements on employee benefit liabilities		
- current income tax expense	$ (1)	$ (3)
- deferred income tax expense	(287)	(45)
Income tax expense	**$ (288)**	**$ (48)**

The income tax differs from the amount that would have resulted from applying the statutory income tax rate to other comprehensive income before income tax expense as follows:

(Canadian dollars in millions)	2024	2023
Other comprehensive income before income taxes	$ 597	$ 107
Statutory income tax rate based on combined federal and provincial rates	26.49%	26.46%
Income tax expense based on statutory tax rates	(158)	(28)
Non-taxable (non-deductible) portion of capital gain (capital loss)	1	(1)
Recognition of deferred income tax liability	(129)	(19)
Other	(2)	-
Income tax expense	**$ (288)**	**$ (48)**

Income tax recorded in shareholders' equity is presented below.

(Canadian dollars in millions)	2024	2023
Share based compensation - deferred income tax recovery	$ 19	$ -
Share issue cost - deferred income tax recovery	22	-
Income tax recovery	**$ 41**	**$ -**

Deferred Income Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

Since 2020, the net deferred income tax assets related to unused tax losses and other deductible temporary differences have not been recognized. As a result of the COVID-19 pandemic, there was considerable negative evidence at that time relating to losses that were incurred and assumptions as to the timing of reversal of temporary differences including expectations about the future results of operations and future cash flows.

In connection with the preparation of the financial statements for the period ended September 30, 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Accordingly, previously unrecognized deferred income tax assets net of the origination and reversal of temporary differences for the nine month period of $1,056 million were recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of $1,154 million, tax recovery recorded in the consolidated statement of changes in equity of $41 million and tax expense recorded in the consolidated statement of comprehensive income of $139 million related to remeasurements on net employee benefit liabilities.

As of December 31, 2024, deferred tax assets and liabilities of $1,039 million are recorded net as a non-current deferred income tax asset on the consolidated statement of financial position. Certain intangible assets with nominal tax cost and a carrying value of $275 million have indefinite lives and accordingly, the associated deferred income tax liability of $73 million (2023 – $73 million) is not expected to reverse until the assets are disposed of, become impaired or amortizable and as a result is included as part of the non-current deferred income tax liability.

The significant components of deferred income tax assets and liabilities were as follows:

(Canadian dollars in millions)	2024	2023
Deferred income tax assets		
Non-capital losses	$ 1,951	$ 1,927
Accounting provisions not currently deductible for tax	129	7
Investment tax credits and recoverable taxes	40	-
Lease liabilities	768	783
Maintenance provisions	443	-
Deferred revenue	192	-
	3,523	2,717
Deferred income tax liabilities		
Post-employment obligations – pension and other employee future benefits	(167)	(460)
Property, equipment, technology-based and other intangible assets	(2,253)	(2,128)
Indefinite-lived intangible assets	(73)	(73)
Other	(64)	(79)
	(2,557)	(2,740)
Net recognized deferred income tax assets (liabilities)	**$ 966**	**$ (23)**
Balance sheet presentation		
Deferred income tax assets	1,039	50
Deferred income tax liabilities	(73)	(73)
Net recognized deferred income tax assets (liabilities)	**$ 966**	**$ (23)**

The following table presents the variation of the components of deferred income tax balances:

(Canadian dollars in millions)	January 1, 2024	2024 income statement movement	2024 OCI movement	2024 equity movement	December 31, 2024
Non-capital losses	$ 1,927	(16)	-	40	$ 1,951
Accounting provisions not currently deductible for tax	7	122	-	-	129
Investment tax credits and recoverable taxes	-	40	-	-	40
Lease liabilities	783	(15)	-	-	768
Maintenance provisions	-	443	-	-	443
Deferred revenues	-	192	-	-	192
Post-employment obligations – pension and other employee future benefits	(460)	580	(287)	-	(167)
Property, equipment, technology-based and other intangible assets	(2,128)	(125)	-	-	(2,253)
Indefinite-lived intangible assets	(73)	-	-	-	(73)
Other deferred tax assets (liabilities)	(79)	14	-	1	(64)
Total recognized deferred income tax assets (liabilities)	**$ (23)**	**1,235**	**(287)**	**41**	**$ 966**

(Canadian dollars in millions)	January 1, 2023	2023 income statement movement	2023 OCI movement	December 31, 2023
Non-capital losses	$ 1,693	$ 234	$ -	$ 1,927
Accounting provisions not currently deductible for tax	7	-	-	7
Lease liabilities	934	(151)	-	783
Post-employment obligations – pension	(423)	8	(45)	(460)
Property, equipment, technology-based and other intangible assets	(2,103)	(25)	-	(2,128)
Indefinite-lived intangible assets	(73)	-	-	(73)
Other deferred tax assets (liabilities)	(60)	(19)	-	(79)
Total recognized deferred income tax assets (liabilities)	**$ (25)**	**$ 47**	**$ (45)**	**$ (23)**

As at December 31, 2024, the Corporation has net capital losses carryforwards of approximately $241 million available for income tax purposes as well as unrealized deductible foreign exchange losses and net capital losses of $354 million, for which no deferred income tax asset has been recognized at this time as the ability to utilize these tax attributes is limited to future taxable capital gains. While the net capital losses remain available for use, the recognition criteria for accounting is not met at this time. Net capital losses do not have an expiry date.

The following are the temporary differences and tax loss carryforwards for which no deferred income tax assets could be recognized:

(Canadian dollars in millions)	2024	2023
Non-capital losses carryforwards	$ -	$ 1,507
Post-employment obligations - other employee future benefits	-	1,104
Accounting provisions not currently deductible for tax	-	427
Maintenance provision	-	1,414
Deferred revenue	-	754
Net capital losses carryforwards	241	131
Unrealized deductible foreign exchange losses and net capital losses	354	202
Total unrecognized net temporary differences	**$ 595**	**$ 5,539**
Deferred income tax rate based on combined federal and provincial rates	26.49%	26.45%
	$ 158	$ 1,465
Recoverable taxes	-	39
Total unrecognized net deferred income tax assets	**$ 158**	**$ 1,504**

The following are the Federal non-capital tax losses expiry dates:

(Canadian dollars in millions)	Tax Losses
2034	$ 1
2040	1,367
2041	4,259
2042	1,621
2044	13
Non-capital losses carryforwards	**$ 7,261**

Cash income taxes recovered in 2024 by the Corporation were $50 million (2023 – $45 million paid).

12. Share capital

		Number of shares	Value (Canadian dollars in millions)
At January 1, 2023		**358,362,258**	**$ 2,743**
Shares issued on the exercise of stock options		107,028	1
At December 31, 2023		**358,469,286**	**2,744**
Shares issued on the exercise of stock options		41,536	1
Shares purchased and cancelled under issuer bid		(18,671,700)	(155)
Deferred tax asset recognition	Note 11	-	22
At December 31, 2024		**339,839,122**	**$ 2,612**

The issued and outstanding shares of Air Canada, along with the potential shares, were as follows:

		2024	2023
Issued and outstanding			
Class A variable voting shares		102,314,033	82,887,375
Class B voting shares		237,525,089	275,581,911
Total issued and outstanding		**339,839,122**	**358,469,286**
Potential shares			
Convertible notes	Note 8	17,856,599	17,856,599
Stock options	Note 13	9,230,773	6,642,516
Total outstanding and potentially issuable shares		**366,926,494**	**382,968,401**

Shares

As at December 31, 2024, the shares issuable by Air Canada consist of an unlimited number of Class A Variable Voting Shares ("Variable Voting Shares") and an unlimited number of Class B Voting Shares ("Voting Shares"). The two classes of shares have equivalent rights as shareholders except for voting rights as explained below.

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the Canada Transportation Act). An issued and outstanding Variable Voting Share is converted into one Voting Share automatically and without any further act of Air Canada or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the Canada Transportation Act.

Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share is converted into one Variable Voting Share automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Air Canada's articles provide that holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Air Canada exceeds 49% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 49% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 49% of the aggregate votes attached to all issued and outstanding Voting Shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% of the votes that may be cast at such meeting. Air Canada's articles also provide for the automatic reduction of the voting rights attached to Variable Voting Shares in the event any of the following limits are exceeded. In such event, the votes attributable to Variable Voting Shares will be affected as follows:

- *first*, if required, a reduction of the voting rights of any single non-Canadian holder (including a single non-Canadian holder authorized to provide an air service) carrying more than 25% of the votes to ensure that such non-Canadian holder never carries more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders;
- *second*, if required and after giving effect to the first proration set out above, a further proportional reduction of the voting rights of all non-Canadian holders authorized to provide an air service to ensure that such non-Canadian holders authorized to provide an air service, in the aggregate, never carry more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders; and
- *third*, if required and after giving effect to the first two prorations set out above, a proportional reduction of the voting rights for all non-Canadian holders as a class to ensure that non-Canadians never carry, in aggregate, more than 49% of the votes which holders of Voting Shares cast at any meeting of shareholders.

Shareholder Rights Plan

Under the terms of the shareholder rights plan agreement (the "Rights Plan"), one right (a "Right") is issued with respect to each share of Air Canada issued and outstanding. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding shares of Air Canada calculated on a combined basis, without complying with the "Permitted Bid" provisions of the Rights Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the shares, are not exercisable and no separate rights certificates are issued. To qualify as a "Permitted Bid" under the Rights Plan, a bid must, among other things: (i) be made to all holders of shares, (ii) remain open for a period of not less than 105 days (or such shorter minimum period determined in accordance with National Instrument 62-104 – Take-Over Bids and Issuer Bids ("NI 62-104"), (iii) provide that no shares shall be taken up unless more than 50% of the then outstanding shares, other than the shares held by the person pursuing the acquisition and parties related to it, have been tendered and not withdrawn, and (iv) provide that if such 50% condition is satisfied, the bid will be extended for at least 10 days to allow other shareholders to tender.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Rights Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase from Air Canada two hundred dollars' worth of shares for one hundred dollars (i.e. at a 50% discount to the market price at that time). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Class B Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Class A Variable Voting Shares.

The renewal of the Rights Plan was ratified at Air Canada's 2023 annual meeting of shareholders. The Rights Plan remains in effect until the day immediately following Air Canada's 2026 annual meeting of shareholders. It could then be further renewed for an additional period of three years from 2026 to 2029 if the shareholders so choose at or prior to their 2026 annual meeting.

Convertible Notes

As described in Note 8, as at December 31, 2024, $394 million (US$274 million) aggregate principal amount of Convertible Notes remains outstanding. The Convertible Notes will mature on July 1, 2025, unless earlier repurchased, redeemed or converted. The conversion rate of the convertible notes is 65.1337 shares per US$1,000 principal amount of convertible notes.

Normal Course Issuers Bid

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

In 2024, the Corporation purchased, for cancellation, 20,279,100 shares at an average cost of $23.92 per share for aggregate consideration of $485 million (of which 1,607,400 shares were cancelled in the first business days after December 31, 2024 related to administrative delay between purchase and cancellation in the books of the registrar). The excess of the cost over the average book value of $330 million was charged to Deficit, together with $10 million share buyback tax. In January and February 2025, Air Canada purchased an additional 15,504,742 shares for aggregate consideration of $315 million effectively purchasing the maximum amount of 35,783,842 shares available for purchase for cancellation under its Issuer Bid.

13. Share-based compensation

Air Canada Long-Term Incentive Plan

Certain of the Corporation's employees participate in the Air Canada Long-term Incentive Plan which provides for the grant of stock options, performance share units and restricted share units to senior management and officers of Air Canada. With respect to the stock options, 4,945,982 shares are available for future grants of options under the Long-term Incentive Plan. The outstanding performance share units and restricted share units will generally not result in the issuance of new shares as these share units will be redeemed for shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

Stock Options

The options to purchase shares granted under the Long-term Incentive Plan have a maximum term of up to ten years and an exercise price based on the fair market value of the shares at the time of the grant of the options. Fifty percent of options are time-based and vest over four years. The remaining options vest based upon performance conditions, which are based on operating margin (operating income over operating revenues) targets established by the Air Canada Board over the same time period. Each option entitles the employee to purchase one share at the stated exercise price.

The number of Air Canada stock options granted to employees, the related compensation expense recorded and the assumptions used to determine stock-based compensation expense, using the Black-Scholes option valuation model are as follows:

	2024	2023
Compensation expense ($ millions)	$ 16	$ 15
Number of stock options granted to Air Canada employees	2,674,553	1,644,782
Weighted average fair value per option granted ($)	$ 6.59	$ 10.01
Aggregated fair value of options granted ($ millions)	$ 18	$ 16
Weighted average assumptions:		
Share price	$ 18.23	$ 19.88
Risk-free interest rate	2.72%-3.59%	2.81%-4.59%
Expected volatility	36.20%	58.60%
Dividend yield	0%	0%
Expected option life (years)	5.25	5.25

Expected volatility was determined at the time of grant using the share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

A summary of the Long-term Incentive Plan option activity is as follows:

	2024		2023	
	Options	Weighted Average Exercise Price/ Share	Options	Weighted Average Exercise Price/ Share
Beginning of year	6,642,516	$ 25.10	5,304,745	$ 26.39
Granted	2,674,553	18.23	1,644,782	19.88
Exercised	(41,536)	14.79	(107,028)	10.64
Expired	(38,533)	26.83	-	-
Forfeited	(6,227)	20.03	(199,983)	23.44
Outstanding options, end of year	**9,230,773**	**$ 23.15**	**6,642,516**	**$ 25.10**
Options exercisable, end of year	**3,960,001**	**$ 27.27**	**3,037,801**	**$ 26.90**

The weighted average share price on the date of exercise for options exercised in 2024 was $21.20 (2023 – $20.73).

		2024 Outstanding Options			2024 Exercisable Options	
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$9.41	2026	68,498	2	9.41	68,498	9.41
$12.83 - $26.40	2027	403,631	3	14.95	403,631	14.95
$22.53 - $27.75	2028	787,654	4	26.52	787,654	26.52
$33.11 - $43.22	2029	827,385	5	33.27	827,385	33.27
$15.35 - $32.42	2030	1,133,935	6	31.25	1,120,335	31.44
$23.80 - $26.93	2031	541,757	7	25.37	251,122	25.39
$17.37 - $24.61	2032	1,162,376	8	24.30	289,449	24.34
$17.61 - $24.19	2033	1,630,984	9	19.88	211,927	20.06
$16.47 - $18.32	2034	2,674,553	10	18.23	-	-
		9,230,773		**$ 23.15**	**3,960,001**	**$ 27.27**

		2023 Outstanding Options			2023 Exercisable Options	
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$9.41	2026	68,498	3	9.41	68,498	9.41
$12.83 - $26.40	2027	434,869	4	14.86	434,869	14.86
$22.53 - $27.75	2028	824,758	5	26.52	824,758	26.52
$33.11 - $43.22	2029	828,814	6	33.27	823,249	33.20
$15.35 - $32.42	2030	1,141,435	7	31.16	563,295	30.84
$23.80 - $26.93	2031	541,757	8	25.37	167,411	25.39
$17.37 - $24.61	2032	1,164,354	9	24.29	145,721	24.29
$17.61 - $24.19	2033	1,638,031	10	19.88	10,000	24.19
		6,642,516		**$ 25.10**	**3,037,801**	**$ 26.90**

Performance and Restricted Share Units

The Long-term Incentive Plan also includes performance share units ("PSUs") and restricted share units ("RSUs"). 75% of PSUs granted vest based on the Corporation achieving its cumulative annual earnings target over a three-year period, while 25% of PSUs vest based on relative total shareholder returns over the same three-year period. RSUs vest after three years from their date of grant. The PSUs and RSUs granted are generally redeemed for Air Canada shares purchased on the secondary market and/or equivalent cash at the discretion of the Board of Directors.

The compensation expense related to PSUs and RSUs in 2024 was $35 million (2023 – $23 million).

A summary of the Long-term Incentive Plan share unit activity is as follows:

	2024	2023
Beginning of year	4,034,091	2,891,925
Granted	2,104,796	1,840,914
Settled	(801,791)	(574,614)
Forfeited	(118,155)	(124,134)
Outstanding share units, end of year	**5,218,941**	**4,034,091**

Employee Share Purchase Plan

Eligible employees can participate in the employee share purchase plan under which employees can invest between 2% and 10% of their base salary for the purchase of shares on the secondary market. Air Canada will match 33.33% of the contributions made by employees. During 2024, the Corporation recorded compensation expense of $25 million (2023 – $21 million) related to the Employee Share Purchase Plan.

14. Earnings per share

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

(in millions, except per share amounts)	2024	2023
Numerator:		
Net income	**$ 1,720**	**$ 2,276**
Effect of assumed conversion of convertible notes	56	(33)
Adjusted numerator for diluted earnings per share	**$ 1,776**	**$ 2,243**
Denominator:		
Weighted-average shares	**358**	**358**
Effect of potential dilutive securities:		
Stock options	-	-
Convertible notes	18	18
Adjusted denominator for diluted earnings per share	**376**	**376**
Basic earnings per share	**$ 4.81**	**$ 6.35**
Diluted earnings per share	**$ 4.72**	**$ 5.96**

The calculation of earnings per share is based on whole dollars and not on rounded millions. As a result, the above amounts may not be recalculated to the per share amount disclosed above.

Excluded from the 2024 calculation of diluted earnings per share were 6,811,000 (2023 – 4,975,000) outstanding options where the options' exercise prices were greater than the average market price of the shares for the year. Outstanding options that had exercise prices lower than the average market price of the shares for the year were included in the calculation of diluted earnings per share; using the treasury stock method, this resulted in less than one million in potential dilutive securities.

15. Commitments

Capital Commitments and Leases

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation. U.S. dollar amounts are converted using the December 31, 2024 closing rate of CDN$1.4384. Minimum future commitments under these contractual arrangements are shown below.

Capital commitments include the acquisition of 18 Boeing 787-10 aircraft which Air Canada announced in 2023. Deliveries are scheduled to begin in 2026, and Air Canada now expects delivery of the last four aircraft in 2030. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.

Capital commitments also include the purchase of one Boeing 787-9 aircraft scheduled to be delivered in 2025 and deliveries for 31 firm orders of Airbus A220 aircraft planned between 2025 and into 2027.

Also included below are capital commitments relating to the acquisition of 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in 2025 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S that includes purchase rights to acquire up to 10 additional aircraft between 2030 and 2032. The amounts related to the periodic lease payments on the 15 leases are included for the periods noted. Lease payments related to eleven Boeing 737 MAX 8 aircraft expected to be delivered in 2025 and 2026 are also included.

(Canadian dollars in millions)	2025	2026	2027	2028	2029	Thereafter	Total
Capital commitments	$ 2,289	$ 2,746	$ 3,260	$ 957	$ 946	$ 2,861	$ 13,059

In 2022, the Corporation announced it had entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. Due to the developing design and specifications of the aircraft, the final cost is not yet determinable and not included in the table above, however the agreement provides for a price cap. The regional aircraft would not be expected to enter service before 2029.

The Corporation leases and subleases certain aircraft and spare engines to its regional carrier, Jazz, which are charged back to Air Canada through its capacity purchase agreement with Jazz. These are reported net on the consolidated statement of operations. The leases and subleases relate to 15 Mitsubishi CRJ-200 aircraft, 20 Mitsubishi CRJ-900 aircraft, 25 Embraer 175 aircraft, and 13 spare engines. The lease and sublease revenue and expense related to these aircraft and engines amount to $116 million in 2024 (2023 - $119 million).

Related financing arrangements

In October 2024, Air Canada received a loan commitment from Export Development Canada of up to US$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft expected to be delivered no later than October 2027.

Other Contractual Commitments

The future minimum non-cancellable commitment for the next 12 months under commercial agreements with regional carriers is approximately $1,339 million which includes pass-through costs to sustain the minimum flying commitment.

16. Financial instruments and risk management

Summary of Financial Instruments

	Carrying Amounts					
	December 31, 2024					
	Financial instruments classification					
(Canadian dollars in millions)	Fair value through profit and loss	Fair value through OCI	Assets at amortized cost	Liabilities at amortized cost	Total	December 31, 2023
Financial Assets						
Cash and cash equivalents	$ 2,518	$ -	$ -	$ -	$ 2,518	$ 2,817
Short-term investments	4,464	-	-	-	4,464	5,734
Accounts receivable	-	-	1,089	-	1,089	1,121
Investments, deposits and other assets						
Long-term investments	770	-	-	-	770	744
Equity investment in Chorus	-	49	-	-	49	40
Restricted cash	104	-	-	-	104	89
Aircraft related and other deposits	-	-	59	-	59	53
Other investments	11	27	-	-	38	36
Derivative instruments						
Foreign exchange derivatives	157	-	-	-	157	14
	$ 8,024	**76**	**1,148**	**-**	**9,248**	**$ 10,648**
Financial Liabilities						
Accounts payable	$ -	$ -	$ -	$ 3,381	$ 3,381	$ 3,025
Foreign exchange derivatives	135	-	-	-	135	179
Embedded derivative on convertible notes	45	-	-	-	45	56
Current portion of long-term debt and lease liabilities	-	-	-	1,755	1,755	866
Long-term debt and lease liabilities	-	-	-	10,915	10,915	12,996
	$ 180	**$ -**	**$ -**	**$ 16,051**	**$ 16,231**	**$ 17,122**

Summary of Gain on Financial Instruments Recorded at Fair Value

(Canadian dollars in millions)		2024	2023
Embedded derivative on convertible notes	Note 8	$ 11	$ 64
Short-term and long-term investments		17	45
Other		-	6
Gain on financial instruments recorded at fair value		**$ 28**	**$ 115**

Risk Management

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

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

Liquidity risk

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations. The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

At December 31, 2024, total liquidity was $9,154 million comprised of cash and cash equivalents, short-term and long-term investments of $7,752 million, and $1,402 million available under undrawn credit facilities. Cash and cash equivalents include $346 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators ($393 million at December 31, 2023).

Cash and cash equivalents include $115 million pertaining to investments with original maturities of three months or less at December 31, 2024 ($364 million as at December 31, 2023).

A maturity analysis of the Corporation's principal and interest repayment requirements on long-term debt and lease liabilities is set out in Note 8, and fixed operating commitments and capital commitments are set out in Note 15.

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk can be further divided into the following sub-classifications related to the Corporation: fuel price risk, foreign exchange risk, interest rate risk, and share-based compensation risk.

Fuel Price Risk

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

During 2024, the Corporation entered into jet fuel swap contracts covering a portion of 2024 fuel exposure. These derivative contracts cash settled with a fair value of $54 million in favor of the counterparties, with a hedging loss of $54 million recorded in Aircraft fuel expense. No hedge ineffectiveness was recorded. There were no outstanding fuel derivatives as at December 31, 2024 nor as at December 31, 2023.

During 2023, the Corporation purchased jet fuel call options covering a portion of 2023 fuel exposure. The cash premium related to these contracts was $44 million. Premium costs and any hedging gains and losses are reclassified from other comprehensive income to Aircraft fuel expense on settlement of the derivatives. Fuel derivative contracts cash settled with a fair value of $95 million in favour of the Corporation, with a net hedging gain of $51 million recorded in Aircraft fuel expense.

Foreign Exchange Risk

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

Air Canada generates certain sales in U.S. dollars and in other foreign currencies which are converted to U.S. dollars under the Corporation's risk management program. In 2024, these net operating cash inflows totalled approximately US$3.7 billion and U.S. denominated operating costs amounted to approximately US$7.3 billion. Non-operating cash outflows in U.S. dollars, primarily related to interest payments on U.S. dollar denominated debt and net financing outflows, amounted to approximately US$3.5 billion. For 2024, this resulted in a U.S. dollar net cash flow exposure of approximately US$7.1 billion.

In 2024, the Corporation increased its target foreign currency derivative coverage from 60% to 70% on a rolling 18 month basis to manage its net U.S. dollar cash flow exposure described above utilizing the following risk management strategies:

- Holding U.S. dollar cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash, short and long-term investment balances as at December 31, 2024 amounted to $805 million (US$561 million) ($1,123 million (US$845 million) as at December 31, 2023). A portion of the cash and investment reserves are an economic hedge against long-term U.S. dollar debt while the remainder of the cash is operational cash and investment reserves which are applied against the rolling 18 month net U.S. dollar cash flow exposure. In 2024, a gain of $64 million (loss of $18 million in 2023) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short and long-term investment balances held.

- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments. Based on the notional amount of currency derivatives outstanding at December 31, 2024, as further described below, approximately 74% of net U.S. cash outflows are hedged for 2025 and 60% for 2026, resulting in derivative coverage of 69% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 70% coverage over the next 18 months.

As at December 31, 2024, the Corporation had outstanding foreign currency options and swap agreements, settling in 2025 and 2026, to purchase at maturity $9,812 million (US$6,847 million) of U.S. dollars at a weighted average rate of $1.3457 per US$1.00 (2023 – $5,982 million (US$4,542 million) with settlements in 2024 and 2025 at a weighted average rate of $1.3089 per US$1.00). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, CNH, and AUD (EUR €341 million, GBP £172 million, JPY ¥38,610 million, CNH ¥711 million and AUD $242 million) which settle in 2025 and 2026 at weighted average rates of €1.1267, £1.2897, ¥0.0071, CNH ¥0.1435 and AUD $0.6810 per US$1.00, respectively (as at December 31, 2023 – EUR €276 million, GBP £166 million, JPY ¥14,797 million, and AUD $124 million) with settlement in 2024 and 2025 at weighted average rates of €1.1292, £1.2790, ¥0.0075, and AUD $0.6920 per US$1.00.

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at December 31, 2024 was $22 million in favour of the Corporation (2023 – $165 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 2024, a gain of $450 million was recorded in Foreign exchange gain (loss) related to these derivatives (2023 – $139 million gain). In 2024, foreign exchange derivative contracts cash settled with a net fair value of $265 million in favour of the Corporation (2023 – $163 million in favour of the Corporation).

Interest Rate Risk

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

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

The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Corporation's capital structure and is based upon a long-term objective of 60% fixed and 40% floating but allows flexibility to adjust to prevailing market conditions. The ratio at December 31, 2024 is 84% fixed and 16% floating (75% and 25%, respectively as at December 31, 2023).

Share-based Compensation Risk

The Corporation issues RSUs and PSUs to certain of its employees, as described in Note 13, which entitles the employees to receive a payment in the form of one share, cash in the amount equal to market value of one share, or a combination thereof, at the discretion of the Board of Directors.

In 2023, to hedge the share price exposure, the Corporation entered into share forward contracts to hedge PSUs and RSUs that vested in 2023. The forward dates for the share forward contracts coincided with the vesting terms and planned settlement dates of 325,000 PSUs and RSUs in 2023. These contracts were not designated as hedging instruments for accounting purposes. Accordingly, changes in the fair value of the contracts were recorded in Gain (loss) on financial instruments recorded at fair value in the period in which they arose. During 2023, a gain of less than $1 million was recorded. Share forward contracts cash settled with a fair value of $6 million in favour of the Corporation in 2023.

There was no share forward contract activity in 2024 or contracts outstanding as at December 31, 2024 nor as at December 31, 2023.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2024, the Corporation's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, long-term investments and derivative instruments. Cash and cash equivalents and short and long-term investments are in place with major financial institutions, various levels of government in Canada, and major corporations. Accounts receivable are generally the result of sales of passenger tickets to individuals, largely through the use of major credit cards, through geographically dispersed travel agents, corporate outlets, or other airlines. Similarly, accounts receivable related to cargo revenues relate to accounts from a large number of geographically dispersed customers. Accounts receivable related to agreements for the issuance of Aeroplan Points are mainly with major financial institutions and any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. Credit rating guidelines are used in determining derivative counterparties. In order to manage its exposure to credit risk and assess credit quality, the Corporation reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by the Corporation as at December 31, 2024. The sensitivity analysis is based on certain movements in the relevant risk factor. These assumptions may not be representative of actual movements in these risks and may not be relied upon. Given potential volatility in the financial and commodity markets, the actual movements and related percentage changes may differ significantly from those outlined below. Changes in income generally cannot be extrapolated because the relationship of the change in assumption to the change in income may not be linear. For purposes of presentation, each risk is contemplated independent of other risks; however, in reality, changes in any one factor may result in changes in one or more several other factors, which may magnify or counteract the sensitivities.

The sensitivity analysis related to foreign exchange derivative contracts is based on the estimated fair value change applicable to the derivative as at December 31, 2024 considering a 5% change in the U.S. dollar versus the Canadian dollar while holding all other assumptions constant.

	Interest rate risk		Foreign exchange rate risk(1)		Other price risk(2),(3)	
	Income		Income		Income	
(Canadian dollars in millions)	1% increase	1% decrease	5% increase	5% decrease	10% increase	10% decrease
Cash and cash equivalents	$ 25	$ (25)	$ (6)	$ 6	$ -	$ -
Short-term investments	$ 45	$ (45)	$ (24)	$ 24	$ -	$ -
Long-term investments	$ 8	$ (8)	$ (10)	$ 10	$ -	$ -
Aircraft related deposits	$ -	$ -	$ (3)	$ 3	$ -	$ -
Long-term debt and lease liabilities	$ (19)	$ 19	$ 456	$ (456)	$ -	$ -
Foreign exchange derivatives	$ -	$ -	$ (1)	$ 1	$ -	$ -
Embedded derivative on convertible notes	$ -	$ -	$ -	$ -	$ (5)	$ 5

(1) Increase (decrease) in foreign exchange relates to a strengthening (weakening) of the Canadian dollar versus the U.S. dollar. The impact on long-term debt and lease liabilities includes $5 million related to the Canadian dollar versus the Japanese yen. The impact of changes in other currencies is not significant to the Corporation's financial instruments.

(2) The sensitivity analysis for the embedded derivative on the convertible notes is based on a total 10% change in value.

For Air Canada's equity investment in Chorus, a 10% increase (decrease) to the Chorus share price would increase (decrease) Other comprehensive income by $5 million.

Covenants in Credit Card Agreements

The Corporation's principal credit card processing agreements for credit card processing services contain triggering events upon which the Corporation is required to provide the applicable credit card processor with cash deposits. The obligations to provide cash deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for the Corporation and the unrestricted cash and short-term investments of the Corporation. In 2024, the Corporation made no cash deposits under these agreements (nil in 2023).

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short-term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments. Cash equivalents and short and long-term investments are classified as held for trading and therefore are recorded at fair value.

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

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Corporation based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt is $10,256 million compared to its carrying value of $10,326 million.

Following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Recurring measurements (Canadian dollars in millions)	December 31, 2024	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets				
Held-for-trading securities				
Cash equivalents	$ 115	$ -	$ 115	$ -
Short-term investments	4,464	-	4,464	-
Long-term investments	770	-	770	-
Equity investment in Chorus	49	49	-	-
Derivative instruments				
Foreign exchange derivatives	157	-	157	-
Total	**$ 5,555**	**$ 49**	**$ 5,506**	**$ -**
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	$ 135	-	135	$ -
Embedded derivative on convertible notes	45	-	45	-
Total	**$ 180**	**$ -**	**$ 180**	**$ -**

Financial assets held by financial institutions in the form of cash and restricted cash have been excluded from the fair value measurement classification table above as they are not valued using a valuation technique.

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers within the fair value hierarchy during 2024.

Offsetting of Financial Instruments in the Consolidated Statement of Financial Position

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Corporation has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Corporation enters into various master netting arrangements or other similar arrangements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be set-off in certain circumstances, such as the termination of the contracts or in the event of bankruptcy or default of either party to the agreement.

Air Canada participates in industry clearing house arrangements whereby certain accounts receivable balances related to passenger, cargo and other billings are settled on a net basis with the counterparty through the clearing house. These billings are mainly the result of interline agreements with other airlines, which are commercial agreements that enable the sale and settlement of travel and related services between the carriers. Billed and work in process interline receivables are presented on a gross basis and amount to $107 million as at December 31, 2024 ($126 million as at December 31, 2023). These balances will be settled at a net value at a later date; however, such net settlement amount is unknown until the settlement date.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset, as at December 31, 2024 and 2023, and shows in the Net column what the net impact would be on the consolidated statement of financial position if all set-off rights were exercised.

Financial assets (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	
December 31, 2024					
Derivative assets	$ 229	$ (72)	$ 157	$ -	$ 157
	$ 229	**$ (72)**	**$ 157**	**$ -**	**$ 157**
December 31, 2023					
Derivative assets	$ 43	$ (29)	$ 14	$ -	$ 14
	$ 43	**$ (29)**	**$ 14**	**$ -**	**$ 14**

Financial liabilities (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	
December 31, 2024					
Derivative liabilities	$ 239	$ (104)	$ 135	$ -	$ 135
	$ 239	**$ (104)**	**$ 135**	**$ -**	**$ 135**
December 31, 2023					
Derivative liabilities	$ 257	$ (78)	$ 179	$ -	$ 179
	$ 257	**$ (78)**	**$ 179**	**$ -**	**$ 179**

17. Contingencies, guarantees and indemnities

Contingencies and Litigation Provisions

Various lawsuits and claims are pending by and against the Corporation and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of the Corporation.

Guarantees

The Corporation participates in fuel facility arrangements operated through nine Fuel Facility Corporations, and three aircraft de-icing service facilities, along with other airlines that contract for fuel and de-icing services at various major airports in Canada. These entities operate on a cost recovery basis. The aggregate debt of these entities that has not been consolidated by the Corporation under IFRS 10 Consolidated Financial Statements is approximately $1,425 million as at December 31, 2024 (December 31, 2023 – $1,215 million), which is the Corporation's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur amongst the other contracting airlines. The Corporation views this loss potential as remote. Each contracting airline participating in these entities shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

Indemnification Agreements

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

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

18. Capital disclosures

The Corporation views capital as the sum of Long-term debt and lease liabilities, the embedded derivative on convertible notes, and the book value of Shareholders' equity. The Corporation also monitors its net debt which is calculated as the sum of Long-term debt and lease liabilities less cash and cash equivalents, and short-term and long-term investments.

The Corporation's main objectives when managing capital are:

- To ensure the Corporation has access to capital to fund contractual obligations as they become due and to ensure adequate cash levels to withstand deteriorating economic conditions;
- To ensure capital allocation decisions generate sufficient returns and to assess the efficiency with which the Corporation allocates its capital to generate returns;
- To structure repayment obligations in line with the expected life of the Corporation's principal revenue generating assets;
- To maintain an appropriate balance between debt supplied capital versus investor supplied capital; and
- To monitor the Corporation's credit ratings to facilitate access to capital markets at competitive interest rates.

In order to maintain or adjust the capital structure, the Corporation may adjust the type or amount of capital utilized, including purchase versus debt financing versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling aircraft options, redeeming or issuing debt securities, issuing equity securities, and repurchasing outstanding shares, all subject to market conditions and the terms of the underlying agreements (or any consents required) or other legal restrictions.

The total capital and net debt as at December 31 are calculated as follows:

(Canadian dollars in millions)	December 31, 2024	December 31, 2023
Long-term debt and lease liabilities	$ 10,915	$ 12,996
Current portion of long-term debt and lease liabilities	1,755	866
Total long-term debt and lease liabilities	12,670	13,862
Embedded derivative on convertible notes	45	56
Shareholders' equity	2,388	796
Total Capital	**$ 15,103**	**$ 14,714**
Total long-term debt and lease liabilities	$ 12,670	$ 13,862
Less Cash and cash equivalents, and short-term and long-term investments	(7,752)	(9,295)
Net debt	**$ 4,918**	**$ 4,567**

19. Revenue

Disaggregation of revenue

The Corporation disaggregates revenue from contracts with customers according to the nature of the air transportation services. The nature of services is presented as passenger, cargo and other revenue on its consolidated statement of operations. The Corporation further disaggregates passenger and cargo air transportation service revenue according to geographic market segments.

A reconciliation of the total amounts reported by geographic region for Passenger revenues and Cargo revenues on the consolidated statement of operations is as follows:

Passenger Revenues

(Canadian dollars in millions)	2024	2023
Canada	$ 5,255	$ 5,106
U.S. Transborder	4,275	4,123
Atlantic	5,754	6,049
Pacific	2,792	2,380
Other	1,684	1,745
	$ 19,760	$ 19,403

Cargo Revenues

(Canadian dollars in millions)	2024	2023
Canada	$ 106	$ 94
U.S. Transborder	58	45
Atlantic	375	432
Pacific	311	222
Other	141	131
	$ 991	$ 924

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia. Other passenger and cargo revenues refer to flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

Other operating revenues are principally derived from customers located in Canada and consist primarily of revenues from the sale of the ground portion of vacation packages, redemption of Aeroplan Points for non-air goods and services, buy on board and related passenger ancillary services and charges, and other airline-related services.

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(Canadian dollars in millions)	December 31, 2024	December 31, 2023
Receivables, which are included in Accounts receivable	$ 770	$ 852
Contract costs which are included in Prepaid expenses and other current assets	124	127
Contract liabilities – Advance ticket sales	4,387	4,341
Contract liabilities – Aeroplan deferred revenue (current and long-term)	3,785	3,562
Contract liabilities – Other deferred revenue (current and long-term)	755	900

Receivables include passenger, cargo and other receivables from contracts with customers. The Corporation sells passenger tickets and related ancillary services via cash, credit card or other card-based forms of payment with payment generally collected in advance of the performance of related transportation services. Passenger ticket and ancillary receivables are amounts due from other airlines for interline travel, travel agency payment processing intermediaries or credit card processors associated with sales for future travel and are included in Accounts receivable on the consolidated statement of financial position. Proceeds from Aeroplan Points issued pursuant to Aeroplan program partner arrangements are based on member accumulations and which billings are generally settled monthly. Cargo and other accounts receivable relate to amounts owing from customers, including from freight forwarders and interline partners for cargo and other services provided.

Contract costs include payment card fees, commissions and global distribution system charges on passenger tickets. These costs are capitalized at time of sale and expensed at the time of passenger revenue recognition.

Airline passenger and cargo sales transactions rely on multiple information technology systems and controls to process, record, and recognize a high volume of low value transactions, through a combination of internal information technology systems and outsourced service providers, including industry clearing houses, global distribution systems, and other partner airlines. Passenger sales and the ground portion of vacation packages are deferred and included in Current liabilities. A portion of the passenger sale related to the equivalent ticket value of any Aeroplan Points issued is separated and deferred in Aeroplan deferred revenue. The Advance ticket sales liability is recognized in revenue when the related flight occurs or over the period of the vacation. Depending on the fare class, passengers may exchange their tickets up to the time of the flight or obtain a refund, generally in exchange for the payment of a fee. The Corporation performs regular evaluations on the advance ticket sales liability.

The practical expedient in IFRS 15 allows entities not to disclose the amount of the remaining transaction prices and its expected timing of recognition for performance obligations if the contract has an original expected duration of one year or less. The Corporation elects to use this practical expedient for the passenger travel performance obligation as passenger tickets expire within a year if unused.

Air Canada offers and has issued and outstanding non-expiring travel credits. Customers have the ability to use the travel credits within the next 12 months and the Corporation does not have an unconditional right to defer settlement beyond the next 12 months. As such, the entire liability amount as at December 31, 2024 of $263 million (2023 - $325 million) related to these credits has been recorded in current liabilities even though some could be used after the next 12 months.

The following table presents financial information related to the changes in Aeroplan deferred revenue:

(Canadian dollars in millions)	2024	2023
Aeroplan deferred revenue, beginning of year	$ 3,562	$ 3,409
Proceeds from Aeroplan Points issued pursuant to program partner arrangements	1,845	1,678
Equivalent ticket value of Aeroplan Points issued	325	294
Aeroplan Points redeemed	(1,947)	(1,819)
Aeroplan deferred revenue, end of year	**$ 3,785**	**$ 3,562**

Proceeds from Points issued pursuant to Aeroplan program partner arrangements and the equivalent ticket value of Points issued through travel are deferred until the Points are redeemed and the reward is provided to the member. The Corporation expects the majority of the Points outstanding will be redeemed within three years.

20. Other operating expenses

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

(Canadian dollars in millions)	2024	2023
Terminal handling	$ 546	$ 501
Crew cycle	300	266
Building rent and maintenance	323	294
Miscellaneous fees and services	254	218
Remaining other expenses	1,035	940
Total other operating expenses	**$ 2,458**	**$ 2,219**

21. Related party transactions

The Corporation sponsors and provides management services to a number of post-retirement plans which are related parties. Refer to Note 9 for additional information on these plans, including contributions made by the Corporation to these plans.

Compensation of Key Management

Key management includes Air Canada's Board of Directors and its Executive Officers (President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Operations Officer, Executive Vice President Marketing and Digital, Executive Vice President, Revenue and Network Planning, Executive Vice President and Chief Human Resources Officer and Public Affairs, and Executive Vice President, Chief Legal Officer and Corporate Secretary). Amounts reported are based upon the expense as reported in the consolidated financial statements, which in the case of Pension and post-employment benefits, includes actuarial gains or losses, as applicable. Share-based compensation is further described in Note 13 and is impacted by Air Canada's share price. Compensation to key management is summarized as follows:

(Canadian dollars in millions)	2024	2023
Salaries and other benefits	$ 11	$ 10
Pension and post-employment benefits	3	5
Share-based compensation	27	16
	$ 41	$ 31

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