2024

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

February 13, 2025

AIR CANADA

A STAR ALLIANCE MEMBER

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1. SELECTED FINANCIAL METRICS AND STATISTICS

The financial and operating highlights for Air Canada for the periods indicated are as follows:

(Canadian dollars in millions, except per share 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.

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 2% increase from 2023.
- Operated capacity increased 5%, 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 4% on an operated capacity growth of 2% year over year.
- Operating expenses of $5,658 million increased $562 million or 11%. 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%, 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%.

- 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 2% on an operated capacity growth of 5% year over year.
- Operating expenses of $20,992 million increased $1,438 million or 7%. 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%, decreased $1,016 million and 4.7 percentage points, respectively.
- Adjusted EBITDA of $3,586 million, with an adjusted EBITDA margin of 16.1%, 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%. 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 2% 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 1%, respectively.

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

- Pacific capacity increased 28% year over year due to the restoration of services to Asia Pacific regions.
- The yield environment was strong in North American markets, growing 1% and 2% for Domestic and Transborder services, respectively.
- Demand for premium products was solid in 2024. Premium cabin revenues grew 5% year over year, reaching 29% of total revenues, a one percentage point expansion from 2023.
- Sixth freedom traffic continued to perform well, with sixth freedom revenues growing 12% 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 3% resulting from a growth of 2% in traffic and 1% 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 4% 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 5% 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% driven by 28% 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 3% 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 7% 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.

(Canadian dollars in millions)	**Full Year**			
	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 7%. 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 4% driven by a 10% 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%. 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%, 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 6% 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% 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% 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.

	Full Year			
(Canadian dollars in millions)	**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% 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% 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.

	Fourth Quarter			
(Canadian dollars in millions, except where indicated)	**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 4% 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.

(Canadian dollars in millions)	Fourth Quarter			
	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**

<u>Domestic Passenger Revenues</u>

Domestic passenger revenues increased 5% 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>U.S. Transborder Passenger Revenues</u>

U.S. transborder passenger increased 7% driven by yield gains in nearly all transborder major route groups.

<u>Atlantic Passenger Revenues</u>

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 6% driven by the 13% 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 2% 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% 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.

(Canadian dollars in millions)	Fourth Quarter			
	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 2% 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%. 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% as a result of a 20% 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%. 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% 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% driven by higher prices and higher volume of passengers year over year.

Communications and Information Technology

Communications and information technology expenses increased 16% 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% 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% 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% 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.

(cents per ASM)	Fourth Quarter			
	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.

AIR CANADA	At December 31, 2024				
	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**

AIR CANADA rouge	At December 31, 2024				
	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.

AIR CANADA	Actual			Planned			
	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**

AIR CANADA rouge	Actual			Planned			
	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.

AIR CANADA EXPRESS	Actual			Planned			
	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 2% 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.

	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)**
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% 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% 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 2% 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 2% 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% 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.

(Canadian dollars in millions, except per share figures)	2023				2024			
	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.

	Fourth Quarter		Full Year	
(Canadian dollars in millions)	**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% 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, 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% 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, 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% 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).

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% 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 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

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% 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% 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% 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.

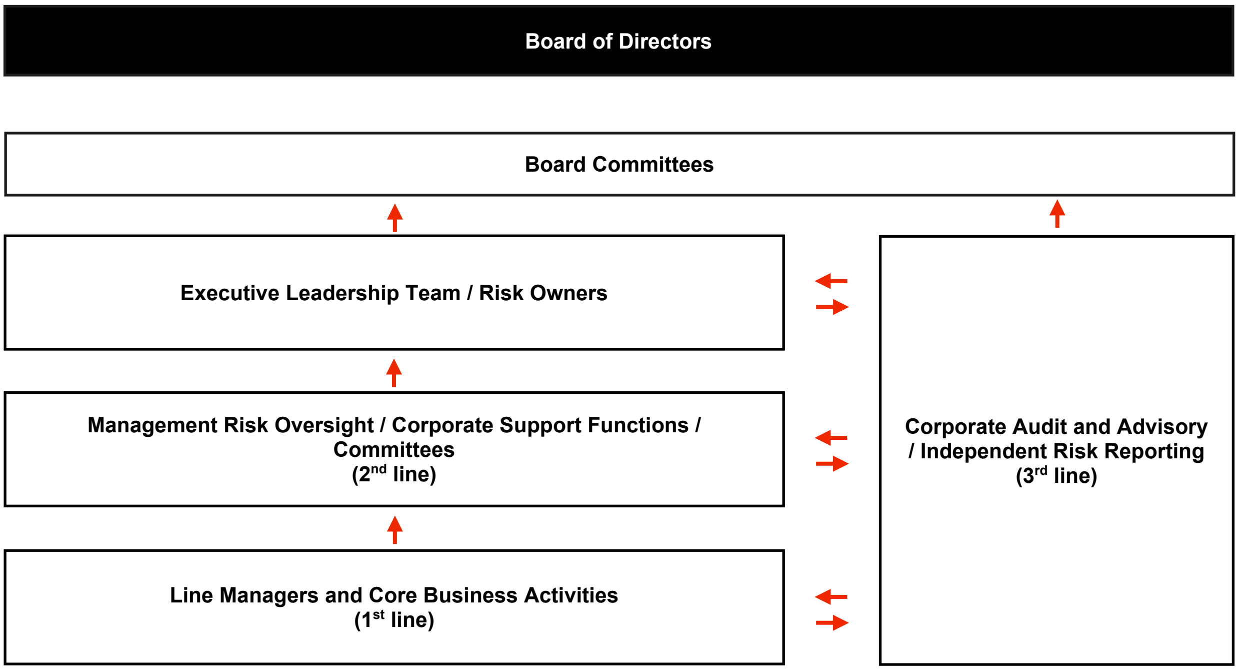
Air Canada's risk management structure is aligned with the "Three Lines Model" approach to risk management:

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%. 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:

(Canadian dollars in millions, except where indicated)	Fourth Quarter			Full Year		
	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:

(Canadian dollars in millions, except where indicated)	Fourth Quarter 2024	Fourth Quarter 2023	Fourth Quarter Change	Full Year 2024	Full Year 2023	Full Year 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.