



2025

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

February 12, 2026



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		
	2025	2024	\$ Change	2025	2024	\$ Change
Financial Performance Metrics						
Operating revenues	5,770	5,404	366	22,372	22,255	117
Operating income (loss)	324	(254)	578	918	1,263	(345)
Operating margin ⁽¹⁾ (%)	5.6	(4.7)	10.3 pp ⁽⁸⁾	4.1	5.7	(1.6) pp
Adjusted EBITDA ⁽²⁾	867	696	171	3,124	3,586	(462)
Adjusted EBITDA margin ⁽²⁾ (%)	15.0	12.9	2.1 pp	14.0	16.1	(2.1) pp
Income (loss) before income taxes	342	(721)	1,063	789	515	274
Net income (loss)	296	(644)	940	644	1,720	(1,076)
Adjusted pre-tax income ⁽²⁾	244	135	109	658	1,397	(739)
Adjusted net income ⁽²⁾	191	93	98	471	1,335	(864)
Total liquidity ⁽³⁾	7,500	9,154	(1,654)	7,500	9,154	(1,654)
Net cash flows from operating activities	423	677	(254)	3,657	3,930	(273)
Free cash flow ⁽²⁾	(478)	(495)	17	747	1,294	(547)
Net debt ⁽²⁾	5,411	4,918	493	5,411	4,918	493
Long-term debt and lease liabilities	11,576	12,670	(1,094)	11,576	12,670	(1,094)
Diluted earnings (loss) per share	1.00	(1.81)	2.81	1.86	4.72	(2.86)
Adjusted earnings per share – diluted ⁽²⁾	0.65	0.25	0.40	1.47	3.55	(2.08)
Operating Statistics ⁽⁴⁾	2025	2024	Change %	2025	2024	Change %
Revenue passenger miles (RPMs) (millions)	21,879	20,573	6.3	89,021	88,643	0.4
Available seat miles (ASMs) (millions)	25,792	24,949	3.4	105,174	104,381	0.8
Passenger load factor %	84.8%	82.5%	2.4 pp	84.6%	84.9%	(0.3) pp
Passenger revenue per RPM (Yield) (cents)	22.8	23.0	(0.6)	22.0	22.3	(1.2)
Passenger revenue per ASM (PRASM) (cents)	19.4	18.9	2.3	18.6	18.9	(1.5)
Operating revenue per ASM (TRASM) (cents)	22.4	21.7	3.3	21.3	21.3	(0.2)
Operating expense per ASM (CASM) (cents)	21.1	22.7	(6.9)	20.4	20.1	1.4
Adjusted CASM (cents) ⁽²⁾	15.3	15.1	1.9	14.7	13.8	6.7
Average number of full-time-equivalent (FTE) employees (thousands) ⁽⁵⁾	36.4	37.1	(1.9)	37.0	37.1	(0.4)
Aircraft in operating fleet at period-end	353	354	(0.3)	353	354	(0.3)
Seats dispatched (thousands)	13,675	13,796	(0.9)	56,587	56,745	(0.3)
Aircraft frequencies (thousands)	93.0	94.5	(1.6)	385.7	387.9	(0.6)
Average stage length (miles) ⁽⁶⁾	1,886	1,808	4.3	1,859	1,839	1.0
Fuel cost per litre (cents)	91.7	94.6	(3.1)	91.4	100.6	(9.1)
Fuel litres (thousands)	1,244,669	1,225,281	1.6	5,064,561	5,082,636	(0.4)
Revenue passengers carried (thousands) ⁽⁷⁾	11,195	10,929	2.4	45,297	45,886	(1.3)

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

(2) Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and impairment), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 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, 2025, of \$7,500 million, consisted of \$6,165 million in cash, cash equivalents, and short- and long-term investments, and \$1,335 million available under undrawn credit facilities. As at December 31, 2024, total liquidity 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. These amounts also include funds (\$333 million as at December 31, 2025 and \$346 million as at December 31, 2024) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.*
- (4) *Except for the reference to average number of full-time equivalent (FTE) employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.*
- (5) *Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.*
- (6) *Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.*
- (7) *Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.*
- (8) *"pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.*

2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), Air Canada refers, as the context may require, to Air Canada alone or Air Canada and one or more of its subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge), or to one or more of such subsidiaries. This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the fourth quarter and full year 2025. This MD&A should be read in conjunction with Air Canada's 2025 annual audited consolidated financial statements and notes dated February 12, 2026. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IFRS Accounting Standards), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 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 12, 2026.

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 12, 2026 reporting on its results for the fourth quarter and full year 2025. 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, Air Canada's multi-year fleet modernization program and planned fleet changes, capital allocation priorities, expectations to meet liquidity needs over the next 12 months, and intentions to refinance outstanding senior indebtedness in 2026. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

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

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic conditions, statements or actions by governments and uncertainty relating to the imposition of (or threats to impose) tariffs on Canadian exports or imports and their resulting impacts on the Canadian, North American and global economies and travel demand, geopolitical and security conditions including in relation to the military conflicts in the Middle East and between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, Air Canada's dependence on technology, cybersecurity risks, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), employee and labour relations and costs, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay or refinance its indebtedness and maintain or increase liquidity on favourable terms and on a timely basis, Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, epidemic diseases, changes in laws, regulatory developments or proceedings, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty

losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations as well as the factors identified in Air Canada's public disclosure file available at www.sedarplus.ca and, in particular, those identified in section 18 "Risk Factors" of this MD&A.

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 2026. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.36 per U.S. dollar for the full year 2026 and that the price of jet fuel will average C\$0.90 per litre for the full year 2026.

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

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

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

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

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

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

4. OVERVIEW

In 2025, Air Canada delivered resilient financial and operational performance despite a challenging external environment. The year was characterized by macroeconomic uncertainty, foreign exchange volatility, evolving geopolitical dynamics, and the August labour disruption, which resulted in the cancellation of more than 3,200 flights and an approximate \$375 million financial impact. At the same time, Air Canada navigated meaningful shifts in global and regional demand patterns, including softer Canada–U.S. traffic and stronger long-haul and leisure-oriented international traffic.

Financial Performance and Demand Trends

Total operating revenues for the year reflected both the impact of the labour disruption and the continued momentum of diversified revenue streams. Passenger revenues declined year over year, driven primarily by an approximate \$430 million impact from the August labour disruption in addition to lower transborder revenues due to softer demand in the Canada–U.S. market. International markets, particularly the Atlantic and Latin and Central America, remained strong contributors, benefiting from robust leisure and visiting-friends-and-relatives demand and effective deployment of long-haul capacity. Cargo and other revenues grew year over year, supported by higher Pacific volumes and increased ground package revenues at Air Canada Vacations.

Air Canada continued to exercise active cost management while navigating inflationary pressures, primarily in labour, maintenance and airport infrastructure costs. Adjusted CASM increased year over year, reflecting the combined impact of inflation in its cost structure and the incremental costs and reduced capacity resulting from the August labour disruption.

The total financial impact of the labour disruption was estimated at approximately \$375 million on operating income and adjusted EBITDA, consisting of:

- \$430 million in revenue impact, including refunds, compensation and lower bookings
- \$145 million in cost avoidance, largely from reduced fuel consumption
- \$90 million in incremental customer and labour related costs

Strategic Progress and Capital Allocation

Air Canada continued advancing its multi-year fleet modernization program. Deliveries of additional Airbus A220 aircraft enhanced domestic and transborder connectivity, while the airline prepared for the introduction of the Airbus A321XLR and Boeing 787-10 in 2026, both of which will support long-haul economics, hub connectivity and premium-focused market positioning.

Air Canada ended the year with strong liquidity of \$7,500 million and maintained balanced capital allocation priorities. It continued to prioritize the strength of its balance sheet, managing net debt prudently while also returning capital to shareholders via its substantial issuer bid and active normal course issuer bid.

The following is an overview of Air Canada's results of operations and financial position for the fourth quarter and full year 2025 compared to the same periods in 2024. Refer to sections 5 "Results of Operations 2025 versus 2024" and 6 "Results of Operations Q4 2025 versus Q4 2024" for additional information on factors impacting the year-over-year performance.

Fourth Quarter 2025 Financial Summary

- Operating revenues increased 7% to \$5,770 million, driven by growth in passenger revenues and other revenues.
- Operating expenses declined 4% to \$5,446 million primarily due to the impact of \$490 million non-cash pension past-service cost recorded in the prior year in relation to the Air Line Pilots Association (ALPA) agreement.

- Operating income improved by \$578 million year over year, reaching \$324 million, compared to an operating loss of \$254 million in Q4 2024, largely due to higher revenues year over year and the \$490 million non-cash pension past-service cost recorded in the prior year in relation to the Air Line Pilots Association (ALPA) agreement. Operating margin of 5.6%, improved 10.3 percentage points.
- Adjusted EBITDA increased to \$867 million from \$696 million, with margin expanding 2.1 percentage points to 15.0%, reflecting a strong revenue performance and disciplined cost control.
- Net income was \$296 million, compared to a net loss of \$644 million in Q4 2024. Diluted earnings per share of \$1.00 versus a diluted loss per share of \$1.81 in the fourth quarter of 2024.
- Adjusted net income rose to \$191 million from \$93 million, driven by higher operating income and improved non-operating results. Adjusted EPS diluted increased to \$0.65 from \$0.25, also reflecting a lower share count.
- Adjusted CASM increased 2% year over year due to higher costs in various categories. Higher capacity year over year partially offset the increase.
- Net cash flows from operating activities of \$423 million and free cash flow of negative \$478 million, compared to \$677 million and negative \$495 million, respectively, in Q4 2024.

Full Year 2025 Financial Summary

- Operating revenues increased 1% to \$22,372 million, with cargo and other revenues growing year over year, partially offset by a \$156 million year over year decline in passenger revenues due to the impact of the August labour disruption and softer Canada–U.S. demand despite a strong performance in the Atlantic, Latin America and the Caribbean.
- Operating expenses increased 2% to \$21,454 million due to increases in most line items and incremental costs related to the August labour disruption. The increase was partially offset by lower fuel year-over-year.
- Operating income was \$918 million, down from \$1,263 million in 2024, reflecting higher operating expenses and the financial impact of the August labour disruption. Operating margin of 4.1% declined 1.6 percentage points.
- Adjusted EBITDA decreased to \$3,124 million from \$3,586 million, with margin declining to 14.0% from 16.1%, reflecting higher costs and the financial impact of the August labour disruption.
- Net income was \$644 million, compared to \$1,720 million in 2024, due primarily to the \$1,154 million deferred tax asset recognition recorded in 2024. Diluted EPS of \$1.86 compared to \$4.72 in 2024.
- Adjusted net income was \$471 million, down from \$1,335 million. Adjusted diluted EPS of \$1.47 compared to \$3.55 in 2024.
- Adjusted CASM increased 6.7%, reflecting higher costs in various categories and the impact of the August labour disruption resulting in incremental costs and reduced capacity.
- Net cash flows from operating activities were \$3,647 million, down from \$3,930 million in 2024, while free cash flow declined to \$747 million from \$1,294 million, reflecting lower earnings and higher capital expenditures.
- Total liquidity ended the year at \$7,500 million compared to \$9,154 million a year earlier, reflecting the execution of the share buyback program, debt repayments and capital expenditures.

- Long-term debt and lease liabilities of \$11,576 million decreased \$1,094 million.
- Net debt increased to \$5,411 million from \$4,918 million, primarily due to reduced cash as a result of share repurchases and capital expenditures. These outflows more than offset the repayments of debt and lease liabilities in 2025.
- Net debt-to-adjusted EBITDA ratio was 1.7 as at December 31, 2025 compared to 1.4 as at December 31, 2024.

5. RESULTS OF OPERATIONS – 2025 VERSUS 2024

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			
	2025	2024	\$ Change	% Change ⁽¹⁾
Operating revenues				
Passenger	\$ 19,604	\$ 19,760	(156)	(1)
Cargo	1,033	991	42	4
Other	1,735	1,504	231	15
Total operating revenues	22,372	22,255	117	1
Operating expenses				
Aircraft fuel	4,731	5,118	(387)	(8)
Wages, salaries and benefits	5,005	4,880	125	3
Depreciation, amortization and impairment	2,012	1,799	213	12
Airport and navigation fees	1,587	1,487	100	7
Aircraft maintenance	1,343	1,237	106	9
Sales and distribution costs	1,075	1,085	(10)	(1)
Capacity purchase fees	863	860	3	0
Ground package costs	872	782	90	12
Communications and information technology	692	649	43	7
Catering and onboard services	673	637	36	6
Other	2,601	2,458	143	6
Total operating expenses	21,454	20,992	462	2
Operating income	918	1,263	(345)	
Non-operating income (expense)				
Foreign exchange gain (loss)	245	(400)	645	
Interest income	222	431	(209)	
Interest expense	(663)	(763)	100	
Interest capitalized	57	32	25	
Financial instruments recorded at fair value	82	28	54	
Loss on debt settlements and modifications	-	(8)	8	
Other	(72)	(68)	(4)	
Total non-operating expense	(129)	(748)	619	
Income before income taxes	789	515	274	
Income tax recovery	(145)	1,205	(1,350)	
Net income	\$ 644	\$ 1,720	\$ (1,076)	
Basic earnings per share	\$ 2.07	\$ 4.81	\$ (2.74)	
Diluted earnings per share	\$ 1.86	\$ 4.72	\$ (2.86)	
Adjusted EBITDA ⁽²⁾	\$ 3,124	\$ 3,586	\$ (462)	
Adjusted pre-tax income ⁽²⁾	\$ 658	\$ 1,397	\$ (739)	
Adjusted net income ⁽²⁾	\$ 471	\$ 1,335	\$ (864)	
Adjusted earnings per share – diluted ⁽²⁾	\$ 1.47	\$ 3.55	\$ (2.08)	

(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 2025, passenger revenues declined \$156 million year over year largely reflecting the combination of the impact of the August labour disruption and reduced traffic in the Transborder market starting from the second quarter of 2025. This was partially offset by strong demand and performance in international markets, primarily Atlantic and Central- and South America.

Premium cabin demand remained solid, with premium revenues continuing to outpace system growth and representing roughly 30% of total passenger revenues, a one-percentage-point improvement year over year. Air Canada also continued executing on its sixth freedom strategy, with connecting traffic posting strong 10% year-over-year growth in sixth freedom revenues, supported by expanded connectivity and robust demand for transatlantic travel. Together, these factors contributed positively to the overall revenue mix and mitigated the impact of the disruption and Canada-U.S. softness.

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

(Canadian dollars in millions)	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 5,273	\$ 5,255	\$ 18	0.3
U.S. transborder	3,831	4,275	(444)	(10.4)
Atlantic	5,979	5,754	225	3.9
Pacific	2,703	2,792	(89)	(3.2)
Other	1,818	1,684	134	8.0
System	\$ 19,604	\$ 19,760	\$ (156)	(0.8)

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

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

	Full Year 2025 versus Full Year 2024					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	0.3	3.3	2.8	(0.5)	(2.4)	(2.9)
U.S. transborder	(10.4)	(9.6)	(12.0)	(2.2)	1.9	(0.8)
Atlantic	3.9	1.1	2.0	0.8	1.8	2.8
Pacific	(3.2)	3.3	2.2	(1.0)	(5.2)	(6.3)
Other	8.0	8.4	8.8	0.3	(0.7)	(0.4)
System	(0.8)	0.8	0.4	(0.3)	(1.2)	(1.5)

Domestic Passenger Revenues

Domestic passenger revenues were essentially flat year over year, increasing 0.3% to \$5,273 million, reflecting generally stable demand across Canada, supported by a strong fourth quarter, resilient leisure travel and improvements in corporate travel. Capacity growth of 3.3% outpaced traffic growth of 2.8%, resulting in a 0.5-percentage-point decrease in passenger load factor, while yield declined 2.4%, consistent with a higher industry capacity in the Domestic market year over year and the revenue impact associated with the August labour disruption.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues declined 10.4% year over year to \$3,831 million, reflecting a broad softening in demand beginning in the second quarter of 2025, compounded by the effects of the August labour disruption.

During 2025, travel between Canada and the United States experienced a notable decline, primarily driven by ongoing concerns regarding tariffs and related geopolitical uncertainties. As a result of this reduced demand, Air Canada implemented capacity reductions in the transborder market.

Atlantic Passenger Revenues

Atlantic passenger revenues increased 3.9% year over year to \$5,979 million, supported by strong transatlantic demand and traffic and effective deployment of long-haul capacity. Despite the impact of the labour disruption, traffic growth of 2.0% outpaced capacity growth of 1.1%, lifting load factor by 0.8 percentage points, while yield improved 1.8%, reflecting favourable market conditions and a solid premium-cabin performance. The Atlantic continued to be a key driver of international strength, helping offset softness in other regions and contributing positively to Air Canada's overall revenue mix.

Pacific Passenger Revenues

Pacific passenger revenues declined 3.2% year over year to \$2,703 million, reflecting lower load factors and yields versus 2024. This result reflected a normalizing yield environment following significant industry capacity growth in the Pacific market in 2024 and in 2025 as well as, the impact of the labour disruption in August 2025.

Other Passenger Revenues

Other passenger revenues increased 8.0% year over year to \$1,818 million, driven by strong leisure demand across Latin America, the Caribbean and Mexico. Passenger load factor improved 0.3 percentage points, supported by traffic growth that outpaced capacity. This performance helped mitigate weaker results in other areas of the network.

Cargo Revenues

Cargo revenues rose by \$42 million, or 4%, to \$1,033 million. The increase was primarily attributable to higher volumes in Latin America and the Pacific, influenced by shifts in shipping activity resulting from adjustments to tariff deadlines and revisions to U.S. duty-free exemption rules for low-value goods. Domestic growth benefited from improved year-over-year yields. These gains were partially offset by flight cancellations caused by labour disruptions in August.

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

(Canadian dollars in millions)	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 126	\$ 106	\$ 20	19.1
U.S. transborder	53	58	(5)	(8.6)
Atlantic	366	375	(9)	(2.3)
Pacific	322	311	11	3.1
Other	166	141	25	17.7
System	\$ 1,033	\$ 991	\$ 42	4.2

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

Other Revenues

Other revenues increased \$231 million, or 15%, to \$1,735 million in 2025, reflecting strong contribution from ground package revenues at Air Canada Vacations due to higher price and volume. Higher non-air revenues related to the Aeroplan program also contributed to the increase.

Operating Expenses

Total operating expenses increased \$462 million, or 2%, to \$21,454 million in 2025, reflecting higher labour, higher depreciation, maintenance, airport fees, ground package costs and incremental customer compensation and crew-related costs in relation to the August labour disruption. These factors exceeded the benefits of lower fuel prices and cost avoidance directly attributable to the labour disruption.

In 2025, Air Canada recorded a one-time expense of \$194 million relating to past service pension cost resulting from plan amendments following the agreement reached with CUPE and costs associated with streamlining Air Canada's management structure. In contrast, in 2024, Air Canada recorded a one-time pension past service cost of \$490 million resulting from the ratification of the new ALPA collective agreement, a \$34 million charge reflecting the estimated costs related to contractual lease obligations and a one-time operating expense of \$20 million related to the removal of two Boeing 767 freighters from the 2024-2025 fleet plan.

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

Aircraft Fuel

Aircraft fuel expense decreased \$387 million, or 8%, to \$4,731 million in 2025. The year-over-year improvement was due to lower fuel prices, reduced fuel consumption associated with the August labour disruption, and a favourable swing in fuel-hedging results. In 2025, Air Canada recorded gains of \$65 million from fuel hedging activities, compared to a loss of \$54 million in 2024. The decline in fuel expenses was partially offset by an unfavourable foreign exchange variance.

Wages, Salaries and Benefits

Wages, salaries and benefits expense increased, \$125 million, or 3%, to \$5,005 million. The year-over-year increase was driven by a mix of labour cost inflation related to pay rate adjustments for eligible employee groups, accruals for wage-related initiatives and higher benefits expenses. This was partially offset by the favourable impact of the difference between the past service pension costs recorded in each period as described below.

In 2024, Air Canada recognized a one-time pension past-service cost of \$490 million related to plan amendments under the newly ratified ALPA collective agreement. In contrast, 2025 includes a one-time charge of \$194 million, consisting of \$149 million in past-service pension cost related to plan amendments under the CUPE agreement and the remainder in costs associated with streamlining Air Canada's management structure.

Depreciation, amortization and impairment

Depreciation, amortization, and impairment increased \$213 million, or 12%, to \$2,012 million. The year-over-year increase reflected the combined impact of a larger narrow-body operating fleet, higher capitalized maintenance activity, and the ongoing renewal and modernization of Air Canada's aircraft and on-board product.

Airport and navigation fees

Airport and navigation fees increased \$100 million, or 7%, to \$1,587 million in 2025. The year-over-year increase primarily reflected higher airport and air navigation rates across major Canadian and international airports, as well as the impact of an unfavourable foreign exchange variance.

Aircraft Maintenance

Aircraft maintenance expense increased \$106 million, or 9%, to \$1,343 million. The increase was driven by a greater number of scheduled engine and airframe maintenance events, higher average prices for maintenance work. In addition, the increase reflected the impact of a favourable contract-related adjustment recorded in the third quarter of 2024, which

reduced the prior-year comparative baseline. 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.

Ground Package Costs

Ground package costs increased \$90 million, or 12%, to \$872 million driven by higher rates and more passengers compared to 2024 levels. It also reflected the impact of an unfavourable foreign exchange variance.

Other operating expenses

Other operating expenses increased \$143 million, or 6%, to \$2,601 million. The increase reflected the incremental costs associated with reimbursements to customers for out-of-pocket expenses and additional labour-related operating costs in connection with the August labour disruption. In addition, higher terminal handling costs related to increased international flying, higher crew cycle costs, increased consultant fees and the impact of an unfavourable variance in foreign exchange year over year also contributed to the overall increase.

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

In 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 2024.

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

(Canadian dollars in millions)	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
Terminal handling	\$ 578	\$ 546	\$ 32	6
Crew cycle	357	300	57	19
Building rent and maintenance	327	323	4	1
Miscellaneous fees and services	296	254	42	17
Remaining other expenses	1,043	1,035	8	1
Total other expenses	\$ 2,601	\$ 2,458	\$ 143	6

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

CASM and Adjusted CASM

In 2025, unit cost or CASM, increased 1.4% year over year. The increase in CASM was driven by higher labour expense, increased depreciation and amortization expense, higher airport and navigation fees, elevated maintenance costs, and the impact of incremental customer and operating expenses associated with the August labour disruption. These cost pressures were partially offset by lower aircraft fuel expense, which declined \$387 million, or 8%, year over year due to lower average fuel prices. CASM in 2024 was also influenced by the \$490 million one-time pension past-service cost related to the ALPA collective agreement compared to a \$194 million charge recorded in 2025 consisting of a past-service pension cost related to plan amendments under the CUPE agreement and costs associated to the streamlining of Air Canada's management structure.

Adjusted CASM increased 6.7% from 2024. The increase in adjusted unit cost reflects higher operating expenses in several categories, including labour, depreciation and amortization, aircraft maintenance and airport and navigation fees. Adjusted CASM also reflects the effect of the August labour disruption, which resulted in more than 3,200 flight cancellations and reduced operated capacity and in incremental customer compensation and crew-related costs.

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

(cents per ASM)	Full Year			
	2025	2024	\$ Change	% Change ⁽¹⁾
CASM	¢ 20.40	¢ 20.11	¢ 0.29	1.4
Remove:				
Aircraft fuel expense, ground package costs, freighter costs, pension plan amendments, other labour-related costs and provision for contractual lease obligations	(5.68)	(6.31)	0.63	(10.0)
Adjusted CASM	¢ 14.72	¢ 13.80	¢ 0.92	6.7

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

Non-Operating Expense

In 2025, non-operating expenses totalled \$129 million, compared to \$748 million in 2024.

The year-over-year change was driven primarily in a net favourable variance of \$645 million in foreign exchange, with a \$245 million foreign exchange gain in 2025 compared to a \$400 million foreign exchange loss in 2024. This improvement was mainly attributable to the revaluation of U.S. dollar-denominated debt and lease liabilities, which resulted from the appreciation of the Canadian dollar against the U.S. dollar as of December 31, 2024. The exchange rate at December 31, 2025, was US\$1 = \$1.37, compared to US\$1 = \$1.44 at December 31, 2024.

Interest income amounted to \$222 million, a decline from \$431 million in the prior year. The decline was due to lower cash balances and decreases in prevailing market interest rates.

Interest expense decreased to \$663 million from \$763 million, reflecting a combination of scheduled debt repayments and lower interest rates.

Income Tax

(Canadian dollars in millions)	Full Year	
	2025	2024
Current income tax recovery (expense)	\$ (19)	\$ (30)
Deferred income tax recovery	(126)	1,235
Income tax recovery (expense)	\$ (145)	\$ 1,205

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.

6. RESULTS OF OPERATIONS – Q4 2025 VERSUS Q4 2024

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

(Canadian dollars in millions, except where indicated)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Operating revenues				
Passenger	\$ 4,998	\$ 4,726	272	6
Cargo	291	293	(2)	(1)
Other	481	385	96	25
Total operating revenues	5,770	5,404	366	7
Operating expenses				
Aircraft fuel	1,185	1,154	31	3
Wages, salaries and benefits	1,255	1,680	(425)	(25)
Depreciation, amortization and impairment	522	460	62	13
Airport and navigation fees	390	357	33	9
Aircraft maintenance	337	361	(24)	(7)
Sales and distribution costs	261	260	1	-
Capacity purchase fees	208	216	(8)	(4)
Ground package costs	239	208	31	15
Communications and information technology	192	162	30	19
Catering and onboard services	185	154	31	20
Other	672	646	26	4
Total operating expenses	5,446	5,658	(212)	(4)
Operating income (loss)	324	(254)	578	
Non-operating income (expense)				
Foreign exchange gain (loss)	103	(372)	475	
Interest income	48	95	(47)	
Interest expense	(155)	(184)	29	
Interest capitalized	21	8	13	
Financial instruments recorded at fair value	6	(38)	44	
Gain on debt settlements and modifications	-	38	(38)	
Other	(5)	(14)	9	
Total non-operating income (loss)	18	(467)	485	
Income (loss) before income taxes	342	(721)	1,063	
Income tax recovery (expense)	(46)	77	(123)	
Net income (loss)	\$ 296	\$ (644)	\$ 940	
Basic earnings (loss) per share	\$ 1.00	\$ (1.81)	\$ 2.81	
Diluted earnings (loss) per share	\$ 1.00	\$ (1.81)	\$ 2.81	
Adjusted EBITDA ⁽²⁾	\$ 867	\$ 696	\$ 171	
Adjusted pre-tax income ⁽²⁾	\$ 244	\$ 135	\$ 109	
Adjusted net income ⁽²⁾	\$ 191	\$ 93	\$ 98	
Adjusted earnings per share – diluted ⁽²⁾	\$ 0.65	\$ 0.25	\$ 0.40	

(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

Passenger revenues increased \$272 million, or 5.7%, to \$4,998 million. The quarter benefited from robust underlying demand, with traffic growth outpacing capacity and producing a meaningful improvement in load factor, notably in the Atlantic market.

Consistent with full year performance, premium cabin and sixth freedom revenue performed well in the fourth quarter. Revenues from premium cabins grew 4% year over year while sixth freedom revenues grew 13% year over year with robust strength in the Latin America - Atlantic corridor.

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

(Canadian dollars in millions)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 1,346	\$ 1,305	\$ 41	3.1
U.S. transborder	975	1,059	(84)	(7.9)
Atlantic	1,441	1,263	178	14.0
Pacific	686	646	40	6.3
Other	550	453	97	21.5
System	\$ 4,998	\$ 4,726	\$ 272	5.7

(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 2025 versus Fourth Quarter 2024					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	3.1	1.0	3.7	2.2	(0.6)	2.1
U.S. transborder	(7.9)	(12.3)	(11.9)	0.4	4.5	5.0
Atlantic	14.0	4.9	10.9	4.7	2.8	8.7
Pacific	6.3	9.5	9.5	-	(3.0)	(3.0)
Other	21.5	19.0	22.4	2.3	(0.8)	2.0
System	5.7	3.4	6.3	2.4	(0.6)	2.3

Domestic Passenger Revenues

Canada passenger revenues increased \$41 million, or 3.1%, to \$1,346 million in the fourth quarter of 2025. The year-over-year improvement reflected a 2.2-percentage-point improvement in load factors driven by strong traffic growth, including a positive impact from improvements in corporate traffic. The growth was partially offset by a small decline in yields from the fourth quarter of 2024.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues declined \$84 million, or 7.9%, to \$975 million in Q4. The decline was due to lower traffic year over year as a result of reduced demand for transborder travel.

During 2025, travel between Canada and the United States experienced a notable decline, primarily driven by ongoing concerns regarding tariffs and related geopolitical uncertainties. As a result of this reduced demand, Air Canada implemented capacity reductions in the transborder market.

Atlantic Passenger Revenues

Atlantic passenger revenues increased \$178 million, or 14.0%, to \$1,441 million, representing the strongest regional performance of the quarter. The growth was supported by very strong transatlantic demand, driving a 4.7 percentage-point increase in load factor. Yield was also up 2.8%, reflecting strong premium-cabin demand and favourable market conditions. The Atlantic continued to benefit from Air Canada's sixth-freedom connecting flows, strengthened hub connectivity, and sustained demand for international travel.

Pacific Passenger Revenues

Pacific passenger revenues increased \$40 million, or 6.3%, to \$686 million in the fourth quarter of 2025. Performance reflected solid traffic growth, which rose 9.5%, in line with the capacity increase. Load factor was stable, while yield declined 3.0% as pricing normalized following significant industry-wide capacity additions and competitive dynamics in several Asia-Pacific markets.

Other Passenger Revenues

Other region passenger revenues increased \$97 million, or 21.5%, to \$550 million, marking another standout performance in the quarter. Revenue growth was driven by a 2.3 percentage-point increase in load factor supported by a 22.4% traffic growth on 19% more capacity year over year, reflective of robust demand for travel to Latin America, the Caribbean and between Latin America and Europe.

Cargo Revenues

Cargo revenues decreased \$2 million, or 0.8%, to \$291 million in the fourth quarter of 2025. The decline was primarily due to lower volume in the Pacific and Transborder and yield in the Atlantic. The decline was partially offset by stronger yields year over year in the Domestic market and higher volumes in Latin America.

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

(Canadian dollars in millions)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Canada	\$ 44	\$ 30	\$ 14	48.4
U.S. transborder	11	17	(6)	(34.1)
Atlantic	103	110	(7)	(7.0)
Pacific	84	92	(8)	(8.6)
Other	49	44	5	10.3
System	\$ 291	\$ 293	\$ (2)	(0.8)

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

Other Revenues

Other revenues increased \$96 million, or 25%, to \$481 million in the fourth quarter of 2025. The year-over-year growth was driven primarily by higher ground package revenues at Air Canada Vacations, supported by strong leisure demand across our Sun network, and higher non-air revenues related to the Aeroplan program.

Operating Expenses

Operating expenses decreased \$212 million, or 4%, to \$5,446 million in the fourth quarter of 2025, largely due to the impact of the \$490 million one-time pension past-service cost recorded in the fourth quarter of 2024 related to the ALPA collective agreement. Excluding this item, operating expenses were higher year over year, reflecting pressures in several cost categories. In the fourth quarter of 2025, Air Canada recorded an expense of \$21 million related to the streamlining of Air Canada's management structure.

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

Aircraft Fuel

Aircraft fuel expense increased \$31 million, or 3%, to \$1,185 million in the fourth quarter of 2025. The year-over-year increase was driven primarily by higher fuel consumption, reflecting increased flying and higher operated capacity in Q4 2025. This was partly offset by lower average jet-fuel prices, which moderated the impact of increased volumes. The variance included the impact of \$17 million in hedge gains recorded in the fourth quarter of 2025 (a loss of \$21 million in the fourth quarter of 2024.)

Wages, Salaries and Benefits

Wages, salaries and benefits expense decreased \$425 million, or 25%, to \$1,255 million in the fourth quarter of 2025. The decrease reflected the one-time pension past service cost of \$490 million recorded in the fourth quarter of 2024 as a result of certain pension plan amendments made in conjunction with the collective agreement with ALPA. The decline was partially offset by labour cost inflation related to pay rate adjustments for eligible employee groups, accruals for wage-related initiatives, higher benefits expenses and a \$21 million expense related to the streamlining of Air Canada's management structure.

Depreciation, amortization and impairment

Depreciation, amortization and impairment expense increased \$62 million, or 13%, to \$522 million in the fourth quarter of 2025. The year-over-year increase reflected the impact of a larger narrow-body operating fleet, including aircraft added over the past year, as well as a higher number of capitalized maintenance events completed in 2025.

Airport and navigation Fees

Airport and navigation fees increased \$33 million, or 9%, to \$390 million in the fourth quarter of 2025. The year-over-year increase was driven by higher airport and air navigation rates in Canada and certain international regions, combined with increased flying activity and an unfavourable year over year foreign exchange variance.

Aircraft maintenance

Maintenance expenses decreased \$24 million, or 7%, to \$337 million in the fourth quarter of 2025. The decline was primarily due to fewer airframe and engine maintenance events, in part, due to the reduction in the total number of Airbus A319 aircraft in the fleet.

Ground Package Costs

Ground package costs increased \$31 million, or 15%, to \$239 million in the fourth quarter of 2025 driven by a greater number of passengers and higher prices year over year.

Catering and onboard services

Catering and onboard services increased \$31 million, or 20%, in the fourth quarter of 2025 driven by higher flying activity, passenger traffic and food prices.

Other operating expenses

Other operating expenses increased \$26 million, or 4%, to \$672 million in the fourth quarter of 2025. The year-over-year increase reflected higher costs across several expense categories, including consultant fees, terminal handling, crew cycle, and building-related expenses.

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

(Canadian dollars in millions)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
Terminal handling	\$ 147	\$ 135	\$ 12	9
Crew cycle	86	75	11	15
Building rent and maintenance	91	82	9	11
Miscellaneous fees and services	95	78	17	22
Remaining other expenses	253	276	(23)	(8)
Total other expenses	\$ 672	\$ 646	\$ 26	4

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

CASM and Adjusted CASM

In the fourth quarter of 2025, CASM decreased 6.9% year over year. This decrease was driven primarily by the favourable impact of the \$490 million one-time pension past-service cost recorded in Q4 2024 as part of the ALPA collective agreement. The decrease was partially offset by higher expenses in various categories, which increased at a higher rate than capacity.

Adjusted CASM increased 1.9% year-over-year reflecting higher operating expenses in various categories including labour, depreciation and amortization, airport and navigation fees and catering. This was partially offset by a decline in aircraft maintenance expense and the year over year increase in capacity.

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

(cents per ASM)	Fourth Quarter			
	2025	2024	\$ Change	% Change ⁽¹⁾
CASM	¢ 21.12	¢ 22.67	¢ (1.55)	(6.9)
Remove:				
Aircraft fuel expense, ground package costs, freighter costs, pension plan amendments and other labour-related charges	(5.78)	(7.62)	1.84	(24.1)
Adjusted CASM	¢ 15.34	¢ 15.05	¢ 0.29	1.9

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

Non-Operating Income (Expense)

In the fourth quarter of 2025, Air Canada recorded a non-operating income of \$18 million compared to a non-operating expense of \$467 million in the fourth quarter of 2024.

The year-over-year variance was driven primarily in a net favourable variance of \$475 million in foreign exchange, with a \$103 million foreign exchange gain in the fourth quarter of 2025 compared to a \$372 million foreign exchange loss in the fourth quarter of 2024. The gain was primarily due a favourable revaluation of U.S. dollar-denominated debt and lease liabilities resulting from the strengthening of the Canadian dollar versus the U.S. dollar from September 30, 2025. The closing exchange rate at December 31, 2025, was US\$1=\$1.37 compared to US\$1= \$1.39 at September 30, 2025.

Interest income decreased year over year, from \$95 million to \$48 million, due to lower cash balances and softer prevailing interest rates.

Interest expense also improved, declining to \$155 million from \$184 million in Q4 2024, a favourable variance of \$29 million, reflecting a combination of scheduled debt repayments and lower interest rates.

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, 2025.

 AIR CANADA	At December 31, 2025				
	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Wide-body aircraft					
Boeing 777-300ER	19	418	15.8	12	7
Boeing 777-200LR	6	300	18.3	4	2
Boeing 787-8	8	255	11.5	8	-
Boeing 787-9	32	298	8.3	26	6
Boeing 767-300 freighters	6	-	32.0	4	2
Airbus A330-300	20	295	19.3	12	8
Total wide-body aircraft	91	320	14.8	66	25
Narrow-body aircraft					
Boeing 737 MAX 8	47	172	5.3	31	16
Airbus A321	21	193	20.1	11	10
Airbus A320	22	122	29.7	9	13
Airbus A319	1	136	28.8	1	-
Airbus A220-300	41	137	4.1	41	-
Total narrow-body aircraft	132	156	11.5	93	39
Total Mainline	223	220	12.9	159	64

	At December 31, 2025				
	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Narrow-body aircraft					
Airbus A321	13	196	10.7	4	9
Airbus A320	5	168	18.8	-	5
Airbus A319	15	136	28.5	15	-
Total Air Canada Rouge	33	164	20.0	19	14
Total Mainline & Rouge	256	213	13.8	174	82

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. They also reflect the anticipated transfer of all the Boeing 737 MAX aircraft to Air Canada Rouge, which is expected to commence in 2026, and that certain Airbus A320 family aircraft are expected to be reassigned to Air Canada's mainline operations.

 AIR CANADA	Actual			Planned*			
	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Wide-body aircraft							
Boeing 777-300ER	19	-	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	31	1	32	-	32	-	32
Boeing 787-10	-	-	-	2	2	5	7
Boeing 767-300 freighters	6	-	6	-	6	-	6
Airbus A330-300	20	-	20	-	20	-	20
Total wide-body aircraft	90	1	91	2	93	5	98
Narrow-body aircraft							
Boeing 737 MAX 8	41	6	47	(47)	-	-	-
Airbus A321XLR	-	-	-	10	10	10	20
Airbus A321	20	1	21	5	26	8	34
Airbus A320	22	-	22	-	22	(3)	19
Airbus A319	5	(4)	1	(1)	-	-	-
Airbus A220-300	34	7	41	18	59	6	65
Total narrow-body aircraft	122	10	132	(15)	117	21	138
Total Mainline	212	11	223	(13)	210	26	236

 AIR CANADA rouge	Actual			Planned*			
	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Narrow-body aircraft							
Boeing 737 MAX 8*	-	-	-	52	52	-	52
Airbus A321	14	(1)	13	(5)	8	(8)	-
Airbus A320	5	-	5	(5)	-	-	-
Airbus A319	18	(3)	15	(15)	-	-	-
Total Air Canada Rouge	37	(4)	33	27	60	(8)	52
Total Mainline & Rouge	249	7	256	14	270	18	288

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

Air Canada Express

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

 AIR CANADA EXPRESS	Actual			Planned			
	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025	2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-900	35	(4)	31	(1)	30	-	30
De Havilland Dash 8-400	45	(4)	41	-	41	-	41
Total Air Canada Express	105	(8)	97	(1)	96	-	96

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. Air Canada also evaluates its liquidity needs including the impact of its working capital position, as discussed in section 8.3 "Working Capital" of this MD&A. Notably, advance ticket sales and the current portion of Aeroplan and other deferred revenues are structural components of the working capital deficiency. These items represent sources of cash from operations that are recognized as revenues and therefore support Air Canada's ongoing liquidity.

At December 31, 2025, total liquidity was \$7,500 million comprised of cash and cash equivalents, short-term and long-term investments of \$6,165 million, and \$1,335 million available under undrawn credit facilities. Cash and cash equivalents included \$333 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents and short- and long-term investments. Liquidity needs, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

8.2 NET DEBT

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

(Canadian dollars in millions)	December 31, 2025	December 31, 2024	Change
Total long-term debt and lease liabilities	\$ 8,609	\$ 10,915	\$ (2,306)
Current portion of long-term debt and lease liabilities	2,967	1,755	1,212
Total long-term debt and lease liabilities (including current portion)	11,576	12,670	(1,094)
Less cash, cash equivalents and short and long-term investments	(6,165)	(7,752)	1,587
Net debt ⁽¹⁾	\$ 5,411	\$ 4,918	\$ 493
Adjusted EBITDA (trailing 12 months)	\$ 3,124	\$ 3,586	\$ (462)
Net debt to adjusted EBITDA ratio ⁽¹⁾	1.7	1.4	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 reduction in total debt and liabilities reflects repayments totaling \$1,744 million, including the settlement of the convertible notes upon their maturity on July 1, 2025. Additionally, the appreciation of the Canadian dollar as of December 31, 2025, relative to December 31, 2024, resulted in a \$417 million decrease in foreign currency denominated debt, primarily in U.S. dollars. These reductions were partially offset by a \$231 million drawdown in September 2025 under Air Canada's facility with Export Development Canada for five previously delivered A220 aircraft, as well as newly incurred lease liabilities.

Net debt to adjusted EBITDA ratio was 1.7 at December 31, 2025, compared to 1.4 at December 31, 2024. Net debt increased \$493 million reflecting the decrease in the liquidity balance resulting from the financing transactions described above, the use of \$859 million for the purchase and cancellation of shares (as discussed in section 8.8 "Share Information" of this MD&A), partially offset by free cash flow generation of \$747 million in 2025. The decrease in adjusted EBITDA which includes the financial impact of the labour disruption in August 2025, negatively impacted the ratio.

8.3 WORKING CAPITAL

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

(Canadian dollars in millions)	December 31, 2025	December 31, 2024	\$ Change
Cash, cash equivalents and short-term investments	\$ 5,525	\$ 6,982	\$ (1,457)
Accounts receivable	1,292	1,089	203
Other current assets	1,099	991	108
Total current assets	\$ 7,916	\$ 9,062	\$ (1,146)
Accounts payable and accrued liabilities	4,513	3,718	795
Advance ticket sales	4,814	4,387	427
Aeroplan and other deferred revenues	1,840	1,588	252
Current portion of long-term debt and lease liabilities	2,967	1,755	1,212
Total current liabilities	\$ 14,134	\$ 11,448	\$ 2,686
Net working capital	\$ (6,218)	\$ (2,386)	\$ (3,832)

At December 31, 2025, Air Canada reported a working capital deficiency of \$6,218 million, an increase of \$3,832 million compared to December 31, 2024. This increase primarily reflected:

- The use of \$859 million for the purchase of shares for cancellation, as discussed in section 8.8 "Share Information" of this MD&A and \$2,910 million in capital investments.
- An increase of \$1,212 million in the current portion of long-term debt and lease liabilities, primarily due to the upcoming 2026 maturity of Air Canada's U.S. dollar Senior Secured Notes, which Air Canada intends to refinance in 2026.

The increase was partially offset by earnings generated during the year.

8.4 CASH FLOW MOVEMENTS

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Net cash flows from operating activities	\$ 423	\$ 677	\$ (254)	\$ 3,657	\$ 3,930	\$ (273)
Net cash flows used in financing activities	(305)	(715)	410	(2,370)	(2,872)	502
Net cash flows used in investing activities	(1,209)	(845)	(364)	(1,005)	(1,363)	358
Effect of exchange rate changes on cash and cash equivalents	(4)	8	(12)	(5)	6	(11)
Increase (decrease) in cash and cash equivalents	\$ (1,095)	\$ (875)	\$ (220)	\$ 277	\$ (299)	\$ 576

Net Cash Flows from Operating Activities

Air Canada generated net cash flows from operating activities in each of the fourth quarter and full year 2025. The decline in net cash flows from operating activities was largely driven by the year-over-year decrease in adjusted EBITDA, which included the financial impact of the labour disruption in August 2025. This was partially offset by the favourable impact of cash from working capital items, including higher cash from advance ticket sales.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities amounted to \$2,370 million in 2025, a decrease of \$502 million from the prior year. Cash used included \$859 million used for the purchase of shares for cancellation as discussed in section 8.8 "Share Information" of this MD&A and \$373 million used to repay and cancel convertible notes following their maturity on July 1, 2025. This was partially offset by \$231 million drawn for five A220 aircraft which had been previously delivered, as discussed in section 8.5 "Capital Expenditures and Related Financing Arrangements". The comparative period reflected a \$1,475 million (U.S. \$1,090 million) debt repayment for a refinancing transaction completed in March 2024.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities decreased \$358 million in 2025 compared to 2024 mainly due to inflows from short-term and long-term investments partially offset by a \$274 million increase in capital expenditures. Net proceeds of \$1,812 million in disposal of short- and long-term investments supported the \$859 million used for purchase and cancellation of approximately 44 million shares in 2025. Additions to property, equipment and intangible assets were \$2,910 million in 2025 compared to \$2,636 million in 2024.

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

Free Cash Flow

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Net cash flows from operating activities	\$ 423	\$ 677	\$ (254)	\$ 3,657	\$ 3,930	\$ (273)
Additions to property, equipment, and intangible assets	(901)	(1,172)	271	(2,910)	(2,636)	(274)
Free cash flow ⁽¹⁾	\$ (478)	\$ (495)	\$ 17	\$ 747	\$ 1,294	\$ (547)

(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 produced \$747 million in free cash flow in 2025, a decrease from 2024 due to increased capital expenditures and lower operating cash flow resulting from the year-over-year decline in adjusted EBITDA.

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 first quarter of 2026 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 10 additional aircraft between 2030 and 2032.

Airbus A220-300 Aircraft

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

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

Of the above-mentioned 65 firm orders, 41 were delivered as at December 31, 2025, with an additional delivery that occurred in early 2026. Deliveries for the 23 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. In September 2025, Air Canada has drawn \$231 million under this facility for five Airbus A220 aircraft which had been previously delivered.

Boeing 737 MAX

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

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

In June 2024, Air Canada entered into lease agreements for eight additional Boeing 737 MAX 8 aircraft. In February 2025, Air Canada reduced the total number of aircraft to seven, all of which have been delivered.

Boeing 787-10 Aircraft

In September 2023, Air Canada announced that it was acquiring 18 Boeing 787-10 aircraft. In November 2025, the total number of aircraft was reduced to 14, of which 10 are scheduled to be delivered by 2028 and the remainder of 4 by 2030. Deliveries are scheduled to begin in 2026. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.

Airbus A350-1000 Aircraft

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

Heart Aerospace ES-30 Electric Aircraft

In 2022, Air Canada entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. The purchase remains subject to conditions including in relation to the design and specifications of the aircraft. In addition, the final cost for the aircraft, which is subject to a price cap, is not yet determinable and is not included in the table below. These aircraft would not be expected to start entry into service before at least 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, 2025 amounted to \$12,644 million.

	2026	2027	2028	2029	2030	Thereafter	Total
Committed expenditures	\$ 2,549	\$ 2,491	\$ 1,569	\$ 1,358	\$ 1,278	\$ 3,399	\$ 12,644
Projected planned but uncommitted expenditures	611	901	835	836	867	Not available	Not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	604	766	708	680	650	Not available	Not available
Total projected expenditures ⁽²⁾	\$ 3,764	\$ 4,158	\$ 3,112	\$ 2,874	\$ 2,795	Not available	Not available

(1) Future capitalized maintenance amounts for 2029 and beyond are not yet determinable, however estimates of \$680 million and \$650 million have been made for 2029 and 2030, respectively.

(2) U.S. dollar amounts are converted using the December 31, 2025 closing exchange rate of US\$1=C\$1.37. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

Air Canada has entered into non-binding letters for up to \$2 billion in sale and leaseback transactions expected to close in 2026 and 2027, subject to the execution of definitive and binding agreements and completion of standard conditions precedent. The commitments table presented above does not reflect these transactions.

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, 2026, the aggregate solvency surplus in Air Canada's domestic registered pension plans was estimated at \$5.1 billion. The final valuations will be completed in the first half of 2026. 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 \$72 million in 2025 and are forecasted to be \$73 million in 2026.

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 \$107 million in 2025 and are forecasted to be \$111 million in 2026.

In 2025, Air Canada recorded a one-time pension past service cost of \$149 million as a result of the pension plan amendments made in conjunction with the collective agreement reached with CUPE. Certain of these plan amendments are conditional on future pension solvency surplus positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. These amendments will be funded out of the surplus in the flight attendants' domestic registered pension plans and are not expected to impact Air Canada's liquidity position.

As at December 31, 2025, approximately 92% 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 (2024 – 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 any sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize.

With Air Canada's Domestic Registered Plans now in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust have a fair value of \$340 million at December 31, 2025 (2024 – \$393 million), although after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If certain conditions are met, the trust would gradually sell shares up to the end of 2037, and the net proceeds from these sales would be used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. There are several conditions to the completion of the agreement in principle and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. The financial statements do not reflect any accounting consequences related to this, as these would only be determined upon the conditions and required approvals being met.

8.7 CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at December 31, 2025, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(Canadian dollars in millions)	2026	2027	2028	2029	2030	Thereafter	Total
Principal							
Long-term debt ⁽¹⁾	\$ 2,429	\$ 1,068	\$ 1,389	\$ 2,313	\$ 452	\$ 1,644	\$ 9,295
Lease liabilities	538	369	311	216	172	866	2,472
Total principal obligations	\$ 2,967	\$ 1,437	\$ 1,700	\$ 2,529	\$ 624	\$ 2,510	\$ 11,767
Interest							
Long-term debt	\$ 382	\$ 285	\$ 316	\$ 499	\$ 101	\$ 40	\$ 1,623
Lease liabilities	127	101	81	63	51	275	698
Total interest obligations	\$ 509	\$ 386	\$ 397	\$ 562	\$ 152	\$ 315	\$ 2,321
Total long-term debt and lease liabilities	\$ 3,476	\$ 1,823	\$ 2,097	\$ 3,091	\$ 776	\$ 2,825	\$ 14,088
Committed capital expenditures	\$ 2,549	\$ 2,491	\$ 1,569	\$ 1,358	\$ 1,278	\$ 3,399	\$ 12,644
Total contractual obligations ⁽²⁾	\$ 6,025	\$ 4,314	\$ 3,666	\$ 4,449	\$ 2,054	\$ 6,224	\$ 26,732

(1) The full principal balance of \$1,273 million for the unsecured credit facility and \$1,584 million (US\$1,154 million) for the term loan B maturing in 2031 are included.

(2) Total contractual obligations exclude commitments for goods and services required in the ordinary course of business. Also excluded are long-term liabilities other than long-term debt and lease liabilities due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.

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, 2025	December 31, 2024
Issued and outstanding shares		
Class A variable voting shares	66,330,053	102,314,033
Class B voting shares	228,219,567	237,525,089
Total issued and outstanding shares	294,549,620	339,839,122
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	-	17,856,599
Stock options	12,137,096	9,230,773
Total shares potentially issuable	12,137,096	27,087,372
Total outstanding and potentially issuable shares	306,686,716	366,926,494

Normal Course Issuer Bids

In 2024, Air Canada received approval from the Toronto Stock Exchange (TSX) to launch a normal course issuer bid (NCIB) allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 5, 2024 to November 4, 2025, up to 35,783,842 shares representing about 10% of the public float of its Class A Variable Voting Shares and Class B Voting Shares (collectively Shares) as at October 22, 2024.

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

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

In the fourth quarter of 2025, 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 7, 2025 to November 6, 2026, up to 29,557,428 of its shares, representing about 10% of the public float of its Shares as at October 24, 2025. In the fourth quarter of 2025, Air Canada purchased, for cancellation, 1,778,824 shares at an average cost of \$18.63 per share for aggregate consideration of \$33 million (of which 51,637 shares were cancelled in the first business days after December 31, 2025 related to administrative delay between purchase and cancellation in the books of the registrar).

In January 2026, Air Canada purchased an additional 1,077,897 shares at an average cost of \$19.43 per share for an aggregate consideration of \$21 million.

In connection with the Issuer Bid, Air Canada entered into an automatic share purchase plan (the "Plan") with its designated broker under which it may, but is not required to, instruct the broker to make purchases at times when it would ordinarily not be active in the market due to regulatory restrictions, self-imposed blackout periods or otherwise. Purchases by the

designated broker made under the Plan, if any, will be based on parameters established by Air Canada in accordance with the rules of the TSX, applicable securities laws and the terms of the Plan.

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.

Substantial Issuer Bid

On May 8, 2025, Air Canada announced a substantial issuer bid (SIB) pursuant to which Air Canada offered to purchase for cancellation up to \$500 million of its shares.

The SIB was made by way of a modified "Dutch auction" under which shareholders wishing to tender could do so through (i) an auction tender at a price not less than \$18.50 per share and not more than \$21.00 per share or (ii) a purchase price tender at the purchase price to be determined by the auction tenders.

A total of about 26.8 million shares were validly deposited in the SIB and not withdrawn pursuant to auction tenders at or below \$18.80 or purchase price tenders. As the SIB was oversubscribed, about 99.14% of the successfully tendered shares were taken up by Air Canada, in addition to "odd lot" tenders not subject to proration. On June 25, 2025, Air Canada purchased, for cancellation, 26,595,744 shares for \$18.80 per share for aggregate consideration of \$500 million.

Convertible Notes

Air Canada repaid US\$274 million aggregate principal amount of indebtedness representing all its outstanding 4.000% convertible senior notes due July 2025 for an aggregate amount of approximately US\$280 million (\$382 million), including accrued interest. The convertible notes were cancelled upon repayment following their maturity on July 1, 2025, reducing the number of potentially issuable shares.

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)	2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenues	\$ 5,226	\$ 5,519	\$ 6,106	\$ 5,404	\$ 5,196	\$ 5,632	\$ 5,774	\$ 5,770
Operating expenses	5,215	5,053	5,066	5,658	5,304	5,214	5,490	5,446
Operating income (loss)	11	466	1,040	(254)	(108)	418	284	324
Non-operating income (expense)	(76)	(62)	(143)	(467)	(59)	(315)	227	18
Income (loss) before income taxes	(65)	404	897	(721)	(167)	103	511	342
Income tax recovery (expense)	(16)	6	1,138	77	65	83	(247)	(46)
Net income (loss)	\$ (81)	\$ 410	\$ 2,035	\$ (644)	\$ (102)	\$ 186	\$ 264	\$ 296
Basic earnings (loss) per share	\$ (0.22)	\$ 1.14	\$ 5.68	\$ (1.81)	\$ (0.31)	\$ 0.58	\$ 0.89	\$ 1.00
Diluted earnings (loss) per share	\$ (0.22)	\$ 1.04	\$ 5.38	\$ (1.81)	\$ (0.40)	\$ 0.51	\$ 0.88	\$ 1.00
Adjusted EBITDA ⁽¹⁾	\$ 453	\$ 914	\$ 1,523	\$ 696	\$ 387	\$ 909	\$ 961	\$ 867
Adjusted pre-tax income (loss) ⁽¹⁾	\$ (94)	\$ 371	\$ 985	\$ 135	\$ (215)	\$ 300	\$ 329	\$ 244
Adjusted net income (loss) ⁽¹⁾	\$ (96)	\$ 369	\$ 969	\$ 93	\$ (150)	\$ 207	\$ 223	\$ 191
Adjusted earnings (loss) per share – diluted ⁽¹⁾	\$ (0.27)	\$ 0.98	\$ 2.57	\$ 0.25	\$ (0.45)	\$ 0.60	\$ 0.75	\$ 0.65

(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		
	2025	2024	2023 ⁽¹⁾
Operating revenues	\$ 22,372	\$ 22,255	\$ 21,833
Operating expenses	21,454	20,992	19,554
Operating income	918	1,263	2,279
Income before income taxes	789	515	2,212
Income tax recovery (expense)	(145)	1,205	64
Net income	\$ 644	\$ 1,720	\$ 2,276
Basic earnings per share	\$ 2.07	\$ 4.81	\$ 6.35
Diluted earnings per share	\$ 1.86	\$ 4.72	\$ 5.96
Adjusted EBITDA ⁽²⁾	\$ 3,124	\$ 3,586	\$ 3,982
Adjusted pre-tax income ⁽²⁾	\$ 658	\$ 1,397	\$ 1,693
Adjusted net income ⁽²⁾	\$ 471	\$ 1,335	\$ 1,713
Adjusted earnings per share – diluted ⁽²⁾	\$ 1.47	\$ 3.55	\$ 4.56
Cash, cash equivalents and short-term investments	\$ 5,525	\$ 6,982	\$ 8,551
Total assets	\$ 31,215	\$ 31,208	\$ 30,171
Total long-term liabilities	\$ 14,490	\$ 17,372	\$ 19,376
Total liabilities	\$ 28,624	\$ 28,820	\$ 29,375

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments Recorded at Fair Value

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

(Canadian dollars in millions)	Fourth Quarter		Full Year	
	2025	2024	2025	2024
Embedded derivative on convertible notes	\$ -	\$ (35)	45	\$ 11
Short-term and long-term investments	6	(3)	37	17
Gain (loss) on financial instruments recorded at fair value	\$ 6	\$ (38)	82	\$ 28

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 2025, Air Canada entered into jet fuel swap derivative contracts covering a portion of 2025 fuel exposure. These derivative contracts cash settled with a fair value of \$65 million in favor of Air Canada, with a hedging gain of \$65 million recorded in Aircraft fuel expense (hedging loss of \$54 million for the year ended December 31, 2024). No hedge ineffectiveness was recorded. As at December 31, 2025, jet fuel swap derivatives with a negative fair value of \$4 million were outstanding, covering a portion of 2026 fuel exposure. There were no outstanding fuel derivatives as at December 31, 2024.

Including hedges entered into in early 2026, Air Canada has hedged approximately 17% of the anticipated purchases of jet fuel for the first half of 2026 at an average jet fuel price of US\$0.51 per litre. Air Canada's contracts to hedge anticipated jet fuel purchases are composed of jet fuel swaps.

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 has a target foreign currency derivative coverage of 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, 2025 amounted to \$920 million (US\$672 million) (\$805 million (US\$561 million) as at December 31, 2024) which are applied against the rolling 18 month net U.S. dollar cash flow exposure. In 2025, a loss of \$34 million (gain of \$64 million in 2024) 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, 2025, as further described below, approximately 74% of net U.S. cash outflows are hedged for 2026 and 37% for 2027, resulting in derivative coverage of 63% 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, 2025, Air Canada had outstanding foreign currency options and swap agreements, settling in 2026 and 2027, to purchase at maturity \$8,913 million (US\$6,495 million) of U.S. dollars at a weighted average rate of \$1.3648 per US\$1.00 (2024 – \$9,812 million (US\$6,847 million) with settlements in 2025 and 2026 at a weighted average rate of \$1.3457 per US\$1.00).

Air Canada also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €487 million, GBP £240 million, JPY ¥10,185 million, and AUD \$22 million) which settle in 2026 and 2027 at weighted average rates of €1.1127, £1.3367, ¥0.0069, and AUD \$0.6749 per US\$1.00, respectively (as at December 31, 2024 – EUR €341 million, GBP £172 million, JPY ¥38,610 million, CNH ¥711 million and AUD \$242 million) with settlement in 2025 and 2026 at weighted average rates of €1.1267, £1.2897, ¥0.0071, CNH ¥0.1435 and AUD \$0.6810 per US\$1.00.

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, 2025 was \$243 million in favour of the counterparties (2024 – \$22 million in favour of Air Canada). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During 2025, a loss of \$207 million was recorded in Foreign exchange gain (loss) related to these derivatives (2024 – \$450 million gain). In 2025, foreign exchange derivative contracts cash settled with a net fair value of \$66 million in favour of Air Canada (2024 – \$265 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, 2025 is 84% fixed and 16% floating (84% and 16%, respectively as at December 31, 2024).

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 2025, including future changes in accounting policies for amendments to standards not yet effective.

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.

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. Air Canada will apply the standard effective January 1, 2027 and it will be applied retrospectively with restatement of the comparative period. IFRS 18 will modify the formatting of the consolidated statement of operations with the presentation of revenue and expenses under three categories (operating, investing and financing), therefore all items currently presented in the non-operating income (expense) section of the consolidated statement of operations will be impacted, in particular the presentation of foreign exchange gains and losses as it can relate to more than one category under the new standard. Air Canada is continuing to evaluate the impact of this standard on its consolidated financial statements.

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 aim to address diversity in practice by specifying that receivables and payables settled electronically should only be derecognized when a corporation has transferred control of the cash and no longer retains settlement related risks, which may occur later than the point when a payment is initiated. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted. Air Canada is continuing to evaluate its electronic payment processes and the disclosures required under these amendments. No material impact is expected for Air Canada's consolidated statement of financial position as of the January 1, 2026 adoption date.

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.

Aeroplan Loyalty Program

Loyalty program accounting requires management to make several estimates including the Equivalent Ticket Value (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 rate per point paid by 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, 2025, the Aeroplan points deferred revenue balance was \$4,008 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 \$40 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. Estimates of breakage may vary in future periods.

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.

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 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.

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 2025 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, 2025 and 2024.

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

	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	4.70%	4.64%	4.70%	4.64%
Service cost for the year ended December 31	4.80%	4.65%	4.80%	4.65%
Accrued benefit obligation as at December 31	4.98%	4.70%	4.98%	4.70%
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 2025 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	Increase
Discount rate on obligation assumption		
Pension expense	\$ 20	\$ (19)
Net interest relating to pension benefit liabilities	12	(6)
Total	\$ 32	\$ (25)
Increase (decrease) in pension obligation	\$ 564	\$ (536)

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, 2025, approximately 92% 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 \$422 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 2025 and thereafter, unchanged from the 2024 assumption. A one-percentage-point increase in assumed health care trend rates would have increased the total of current service and interest costs by \$4 million and the obligation by \$74 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 \$78 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 \$35 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 \$33 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 \$1,631 million as at December 31, 2025 (December 31, 2024 – \$1,425 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, 2025, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements and sponsorship and management services for a number of post-retirement plans which are related parties. Refer to Notes 9 and 21 of Air Canada's audited consolidated financial statements and notes for 2025, 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 2025 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	2026 Measure	Sensitivity Factor	Favourable/ (Unfavourable) Estimated Operating Income Impact/Pre-tax Income (Canadian dollars in millions)
Fuel			
Fuel – Jet fuel price (US\$/barrel) ⁽¹⁾	\$98	US\$1/barrel increase	\$ (47)
Fuel – Jet fuel price (C\$/litre) ⁽¹⁾	\$0.90	1% increase	\$ (47)
Currency Exchange			
C\$ to US\$	US\$1=C\$1.36	1 cent appreciation (i.e. from \$1.36 to \$1.35 per US\$)	
		Operating income ⁽²⁾	\$ 32
		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	59
		Remeasurement of outstanding currency derivatives	(65)
		Pre-tax income impact	\$ 30

(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.

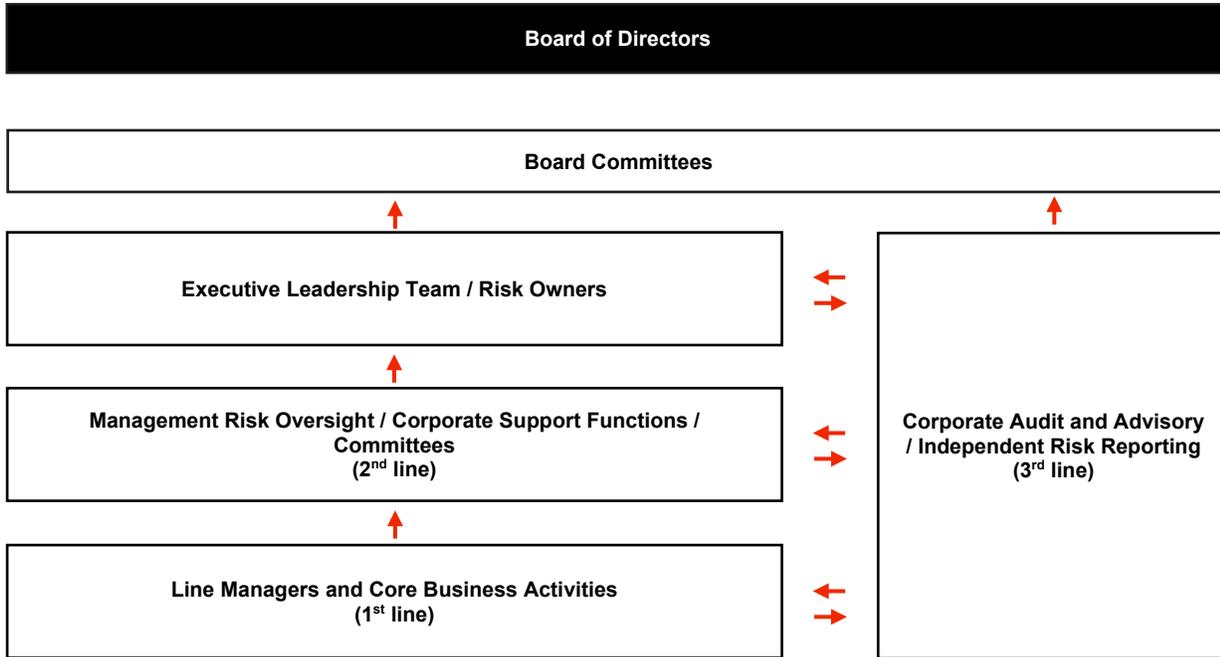
Air Canada's risk management structure is aligned with the "Three Lines Model" approach to risk management:

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, global commercial activity, 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, South America, or other geopolitical conflicts, security risks or 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, over 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, delays in scheduled aircraft or equipment deliveries and other factors described in this report, may result in Air Canada incurring significant losses or adversely impact Air Canada's operating and financial results. 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 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 or to or from certain destinations 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 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 various products or alternative modes of transportation, may impact revenues. Travel, especially leisure travel, is a discretionary consumer expense and is price sensitive. Demand for business and premium travel is also impacted by a

variety of factors such as economic and geopolitical conditions. Many factors such as economic conditions, geopolitical instability, infectious diseases, and concerns about the environmental impacts of air 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 air service 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, interact with customers, increase its revenues and reduce its costs. Air Canada's technology systems include those relating to its websites, mobile application, 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 and Air Canada relies on third party service providers to support and protect its structure and data, and host or otherwise process personal information. Artificial intelligence and machine learning may create legal, operational, and ethical risks, including bias, errors, data leaks, and intellectual property issues. Competitors may advance faster with artificial intelligence, impacting our position. Regulatory changes will demand continuous compliance efforts. Appropriate development, implementation 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 no direct oversight over their security ecosystem and practices. These suppliers' performance is in turn dependent upon their respective technology ecosystems.

Technology systems are 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, social engineering/phishing, use of AI techniques such as deepfakes, 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 as well as those of our suppliers. 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, 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. Despite our efforts, and given the complexity and scale of our business, network infrastructure, technology and IT supporting systems, as well as our reliance on third party service providers, there can be no assurance that our information security systems and controls will be effective, and we might not detect a breach for a long time, if at all.

We and our third-party service providers have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future. Responses to these cybersecurity incidents may not be sufficient to prevent or mitigate their potential adverse impacts, which may be material. As cybersecurity incidents become more frequent, intense and sophisticated, the costs of proactive defense, response and other measures are increasing. 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 business relationships 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), geopolitical conditions, 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 aircraft, 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, suppliers, facilities and infrastructure – 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 equipment, 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, security services and sufficient infrastructure capacity to support demand and operating requirements), 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, availability, timely certification and maintenance of aircraft, as well as related parts and other products we purchase, and issues that arise may cause these to be unavailable or restricted, and may result in operational disruptions, higher costs, and adversely affecting our business and financial results.

In certain cases, Air Canada may only be able to source equipment, goods and services from a limited number of suppliers or lessors (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. A limited number of suppliers may also result in reduced competition and potentially higher prices than if the supplier base was less concentrated.

Air Canada needs sufficient airport facilities, such as gates, slots, counters, and control areas, to maintain and expand its flight schedule. Increasing airport congestion may limit our ability to offer new services, given operating constraints and existing infrastructures. Any restrictions on adding or maintaining needed facilities could adversely affect our business and financial results.

In addition, sanctions, 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 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. Collective agreements with certain unions will expire in 2026 and in following years, and Air Canada will be engaging in bargaining with these unions. 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 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 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 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 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 in a timely manner and on acceptable terms, 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 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 operations and 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 and borrow on acceptable terms.

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 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, measles, Ebola, other disease outbreaks or health threats, 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 or to or from certain destinations and could have a material adverse effect on 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, overflight, 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, partnerships, 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, administrative guidance, interpretations, and treaties 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 introduced similar legislation. 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 or enforcement actions 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 disproportionately 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, rules, orders, policies 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 or to or from certain destinations 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, changes in payments systems, 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 venture 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 Star Alliance or other airlines fail to meet its obligations toward Air Canada, or if Air Canada's strategic and commercial arrangements were to be negatively impacted by changes in regulations, or the interpretation, application, or enforcement of such regulations, 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 or the increased use of artificial intelligence. Adverse publicity, whether justified or not, can rapidly spread through social or digital media and broadly without context, making it increasingly difficult for us to effectively respond. 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 other legal proceedings (such as class action claims,) seeking monetary or other relief, including with respect to contractual arrangements and applicable laws and regulations. The final outcome of these matters may result in a judgment against us or in the payment of a settlement, which could have a material adverse impact.

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), its Chief Financial Officer (CFO) and its Disclosure 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, 2025, 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, 2025, 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

In the third quarter of 2025, Air Canada implemented a new enterprise resource planning (ERP) system, resulting in changes that materially affect its internal controls over financial reporting. In connection with the deployment, management has developed and implemented new controls aligned with the ERP environment and performed additional procedures to ensure key control objectives were achieved. Management certified on the design of internal controls and concluded that internal controls over financial reporting were effective as of December 31, 2025. Management will continue to monitor their operating effectiveness during the post-implementation period.

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 Air Canada believes these may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's operating expense performance and may allow for a more meaningful comparison to other airlines.

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 2025 or in 2024.

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.

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

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, 2025, and as at December 31, 2024. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison of the passenger airline business across periods.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	Fourth Quarter			Full Year		
	2025	2024	Change	2025	2024	Change
Operating expense – GAAP	\$ 5,446	\$ 5,658	\$ (212)	\$ 21,454	\$ 20,992	\$ 462
Adjusted for:						
Aircraft fuel	(1,185)	(1,154)	(31)	(4,731)	(5,118)	387
Ground package costs	(239)	(208)	(31)	(872)	(782)	(90)
Freighter costs (excluding fuel)	(45)	(50)	5	(173)	(163)	(10)
Provision for contractual lease obligations	-	-	-	-	(34)	34
Pension plan amendments and other labour related charges	(21)	(490)	469	(194)	(490)	296
Operating expense, adjusted for the above-noted items	\$ 3,956	\$ 3,756	\$ 200	\$ 15,484	14,405	1,079
ASMs (millions)	25,792	24,949	3.4%	105,174	104,381	0.8%
Adjusted CASM (cents)	¢ 15.34	¢ 15.05	¢ 0.28	¢ 14.72	¢ 13.80	¢ 0.92

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			Full Year		
	2025	2024	Change	2025	2024	Change
Operating income (loss) – GAAP	\$ 324	\$ (254)	\$ 578	\$ 918	\$ 1,263	\$ (345)
Add back:						
Depreciation, amortization and impairment	522	460	62	2,012	1,799	213
Provision for contractual lease obligations	-	-	-	-	34	(34)
Pension plan amendments and other labour related charges	21	490	(469)	194	490	(296)
Adjusted EBITDA	\$ 867	\$ 696	\$ 171	\$ 3,124	\$ 3,586	\$ (462)
Operating revenues	\$ 5,770	\$ 5,404	\$ 366	\$ 22,372	\$ 22,255	\$ 117
Operating margin (%)	5.6	(4.7)	10.3 pp	4.1	5.7	(1.6) pp
Adjusted EBITDA margin (%)	15.0	12.9	2.1 pp	14.0	16.1	(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.

A corporate charge of \$26 million for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in 2025. As this item is non-recurring and cash-neutral to Air Canada, since a related tax refund was also recorded, it has been added back to adjusted pre-tax income.

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Income (loss) before income taxes – GAAP	\$ 342	\$ (721)	\$ 1,063	\$ 789	\$ 515	\$ 274
Adjusted for:						
Provision for contractual lease obligations	-	-	-	-	34	(34)
Pension plan amendments and other labour related charges	21	490	(469)	194	490	(296)
Foreign exchange (gain) loss	(103)	372	(475)	(245)	400	(645)
Net interest relating to employee benefits	(10)	(6)	(4)	(24)	(22)	(2)
(Gain) loss on financial instruments recorded at fair value	(6)	38	(44)	(82)	(28)	(54)
(Gain) loss on debt settlement	-	(38)	38	-	8	(8)
Other corporate expenses	-	-	-	26	-	26
Adjusted pre-tax income	\$ 244	\$ 135	\$ 109	\$ 658	\$ 1,397	\$ (739)

Adjusted Net Income (loss) and Adjusted Earnings (Loss) per Share – Diluted

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

A corporate charge of \$26 million for the settlement of tax matters related to the 2019 acquisition of Aeroplan was recorded in 2025. As this item is non-recurring and cash-neutral to Air Canada, since a related tax refund was also recorded, it has been added back to adjusted net income.

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

(Canadian dollars in millions)	Fourth Quarter			Full Year		
	2025	2024	\$ Change	2025	2024	\$ Change
Net income (loss) – GAAP	\$ 296	\$ (644)	\$ 940	\$ 644	\$ 1,720	\$ (1,076)
Adjusted for:						
Provision for contractual lease obligations	-	-	-	-	34	(34)
Pension plan amendments and other labour related charges	21	490	(469)	194	490	(296)
Foreign exchange (gain) loss	(103)	372	(475)	(245)	400	(645)
Net interest relating to employee benefits	(10)	(6)	(4)	(24)	(22)	(2)
(Gain) loss on financial instruments recorded at fair value	(6)	38	(44)	(82)	(28)	(54)
(Gain) loss on debt settlements and modifications	-	(38)	38	-	8	(8)
Other corporate expenses	-	-	-	26	-	26
Income tax, including for the above reconciling items ⁽¹⁾	(7)	(119)	112	(42)	(1,267)	1,225
Adjusted net income	\$ 191	\$ 93	\$ 98	\$ 471	\$ 1,335	\$ (864)
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	296	374	(78)	320	376	(56)
Adjusted earnings per share – diluted	\$ 0.65	\$ 0.25	\$ 0.40	\$ 1.47	\$ 3.55	\$ (2.08)

(1) Previously unrecognized deferred income tax assets of \$1,056 million was recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of \$1,154 million. Refer to section 5 "Results of Operations – 2025 versus 2024" of this MD&A.

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	
	2025	2024	2025	2024
Weighted average number of shares outstanding – basic	296	355	311	358
Effect of dilution	-	19	9	18
Weighted average number of shares outstanding – diluted	296	374	320	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 “Non-GAAP Financial Measures” of this MD&A for additional information.

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

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

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

Total operating revenues per available seat mile or TRASM – Refers to average total operating revenues per ASM.

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

Yield – Refers to average passenger revenue per RPM.