



2025

Consolidated Financial Statements and Notes



February 12, 2026

 **AIR CANADA**

A STAR ALLIANCE MEMBER 

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

(signed) Michael Rousseau
Michael Rousseau
President and Chief Executive Officer

(signed) John Di Bert
John Di Bert
Executive Vice President and
Chief Financial Officer

February 12, 2026



Independent auditor's report

To the Shareholders of Air Canada

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Air Canada and its subsidiaries (together, the Corporation) as at December 31, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2025 and 2024;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and

the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Passenger and cargo revenue recognition</p> <p>Refer to note 2 – Basis of presentation and summary of material accounting policies and note 19 – Revenue to the consolidated financial statements.</p> <p>Passenger and cargo revenues are recognized when the transportation is provided. Total passenger and cargo revenues recognized for the year ended December 31, 2025 amounted to \$19,604 million and \$1,033 million, respectively.</p> <p>Such transactions rely on multiple Information Technology (IT) systems and controls to process, record, and recognize a high volume of low value revenue transactions through a combination of IT systems and outsourced service providers.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested the operating effectiveness of internal controls related to passenger and cargo revenue recognition, which included the following:<ul style="list-style-type: none">– Tested the controls over the relevant IT systems that management used to recognize passenger and cargo revenues.

Key audit matter

We considered this a key audit matter due to the significance of passenger and cargo revenues and the volume of these transactions resulting in significant audit effort to test the revenue recognized.

How our audit addressed the key audit matter

- For the IT systems or processes that are outsourced to third party service providers, assessed the assurance reports attesting to the appropriateness and effectiveness of the internal control systems established by the service providers.
- Tested a sample of passenger and cargo revenue transactions recorded during the year by inspecting the consideration received and the evidence of when the transportation was provided for passengers or cargo.

Measurement of the total benefit obligations

Refer to note 2 – Basis of presentation and summary of material accounting policies, note 3 – Critical accounting estimates and judgments, and note 9 – Pensions and other benefit liabilities to the consolidated financial statements.

The Corporation has net benefit assets of \$912 million, which include total benefit obligations associated with pension benefit obligations of \$17,999 million and other employee future benefit obligations of \$1,048 million as at December 31, 2025.

The total benefit obligations associated with pension benefit obligations and other employee future benefit obligations are actuarially determined annually as at December 31 and are prepared by the Corporation's consulting actuaries (management's experts). The total benefit obligations are determined using the projected unit credit method. Management applied significant judgment in determining the discount rates and mortality assumptions to develop the estimates for the total benefit obligations.

We considered this a key audit matter due to the significance of the total benefit obligations and the significant judgment made by management, including the use of management's experts, in determining the discount rates and mortality assumptions, which resulted in a high degree of auditor judgment and subjectivity in performing procedures related to those assumptions.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management developed the estimates for the total benefit obligations, which included the following:
 - The work of management's experts was used in performing the procedures to evaluate the reasonableness of the total benefit obligations associated with pension benefit obligations and other employee future benefit obligations. As a basis for using this work, management's experts' competence, capabilities and objectivity were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluating the methods and assumptions used by management's experts, testing the data used by management's experts and evaluating their findings.
 - Professionals with specialized skill and knowledge in the field of actuarial services assisted in evaluating the appropriateness of the projected unit credit method and the reasonableness of the discount rates and mortality assumptions.

Key audit matter**How our audit addressed the key audit matter**

The audit effort involved the use of professionals with specialized skill and knowledge in the field of actuarial services.

- Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the measurement of the pension benefit obligations and other employee future benefit obligations.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

PricewaterhouseCoopers LLP¹

Montréal, Quebec

February 12, 2026

¹ FCPA auditor, public accountancy permit No. A123498.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars in millions)		December 31, 2025	December 31, 2024
ASSETS			
Current			
Cash and cash equivalents		\$ 2,795	\$ 2,518
Short-term investments		2,730	4,464
Total cash, cash equivalents and short-term investments		5,525	6,982
Accounts receivable	Note 19	1,292	1,089
Aircraft fuel inventory		214	192
Spare parts and supplies inventory	Note 2P	276	199
Prepaid expenses and other current assets		609	600
Total current assets		7,916	9,062
Investments, deposits and other assets	Note 4	959	1,080
Property and equipment	Note 5	14,515	13,049
Pension assets	Note 9	2,513	2,535
Deferred income tax	Note 11	774	1,039
Intangible assets	Note 6	1,265	1,170
Goodwill	Note 7	3,273	3,273
Total assets		\$ 31,215	\$ 31,208
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 4,513	\$ 3,718
Advance ticket sales	Note 19	4,814	4,387
Aeroplan and other deferred revenue	Note 19	1,840	1,588
Current portion of long-term debt and lease liabilities	Note 8	2,967	1,755
Total current liabilities		14,134	11,448
Long-term debt and lease liabilities	Note 8	8,609	10,915
Aeroplan and other deferred revenue	Note 19	2,779	2,952
Pension and other benefit liabilities	Note 9	1,534	1,842
Maintenance provisions	Note 10	1,341	1,431
Other long-term liabilities		154	159
Deferred income tax	Note 11	73	73
Total liabilities		\$ 28,624	\$ 28,820
SHAREHOLDERS' EQUITY			
Share capital	Note 12	2,275	2,612
Contributed surplus		166	149
Hedging reserve		(3)	–
Accumulated other comprehensive loss		(49)	(48)
Retained earnings (deficit)		202	(325)
Total shareholders' equity		2,591	2,388
Total liabilities and shareholders' equity		\$ 31,215	\$ 31,208

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

On behalf of the Board of Directors:

(signed) Vagn Sørensen
Vagn Sørensen
 Chair of the Board of Directors

(signed) Christie J.B. Clark
Christie J.B. Clark
 Chair of the Audit, Finance and Risk Committee

CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31 (Canadian dollars in millions except per share figures)		2025	2024
Operating revenues			
Passenger	Note 19	\$ 19,604	\$ 19,760
Cargo	Note 19	1,033	991
Other		1,735	1,504
Total revenues		22,372	22,255
Operating expenses			
Aircraft fuel		4,731	5,118
Wages, salaries and benefits	Note 9	5,005	4,880
Depreciation, amortization and impairment	Note 5	2,012	1,799
Airport and navigation fees		1,587	1,487
Aircraft maintenance		1,343	1,237
Sales and distribution costs		1,075	1,085
Capacity purchase fees	Note 2D	863	860
Ground package costs		872	782
Communications and information technology		692	649
Catering and onboard services		673	637
Other	Note 20	2,601	2,458
Total operating expenses		21,454	20,992
Operating income		918	1,263
Non-operating income (expense)			
Foreign exchange gain (loss)		245	(400)
Interest income		222	431
Interest expense	Note 8	(663)	(763)
Interest capitalized		57	32
Financial instruments recorded at fair value	Note 16	82	28
Loss on debt settlements and modifications	Note 8	–	(8)
Other		(72)	(68)
Total non-operating expense		(129)	(748)
Income before income taxes		789	515
Income tax recovery (expense)	Note 11	(145)	1,205
Net income		\$ 644	\$ 1,720
Net income per share			
	Note 14		
Basic earnings per share		\$ 2.07	\$ 4.81
Diluted earnings per share		\$ 1.86	\$ 4.72

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31 (Canadian dollars in millions)		2025	2024
Comprehensive income			
Net income		\$ 644	\$ 1,720
Other comprehensive income, net of tax:	Note 11		
Items that will not be reclassified to net income			
Remeasurements on net employee benefits	Note 9	409	300
Remeasurements on equity investments	Note 4	(1)	9
Items that will be reclassified to net income			
Fuel derivatives designated as cash flow hedges	Note 16	(3)	–
Total comprehensive income		\$ 1,049	\$ 2,029

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars in millions)	Share capital	Contributed surplus	Hedging reserve	Accumulated OCI	Retained earnings (deficit)	Total shareholders' equity
January 1, 2024	\$ 2,744	\$ 133	–	\$ (57)	\$ (2,024)	\$ 796
Net income	–	–	–	–	1,720	1,720
Remeasurements on net employee benefits	–	–	–	–	300	300
Remeasurements on equity investments	–	–	–	9	–	9
Total comprehensive income	–	–	–	9	2,020	2,029
Share-based compensation	–	16	–	–	–	16
Shares purchased and cancelled under issuer bid (Note 12)	(155)	–	–	–	(340)	(495)
Shares issued (Note 12)	1	–	–	–	–	1
Deferred income tax recognition (Note 11)	22	–	–	–	19	41
December 31, 2024	\$ 2,612	\$ 149	–	\$ (48)	\$ (325)	\$ 2,388
Net income	–	–	–	–	644	644
Remeasurements on net employee benefits	–	–	–	–	409	409
Remeasurements on equity investments	–	–	–	(1)	–	(1)
Fuel derivatives designated as cash flow hedges	–	–	(3)	–	–	(3)
Total comprehensive income	–	–	(3)	(1)	1,053	1,049
Share-based compensation	–	18	–	–	–	18
Shares purchased and cancelled (Note 12)	(340)	–	–	–	(526)	(866)
Shares issued (Note 12)	3	(1)	–	–	–	2
December 31, 2025	\$ 2,275	\$ 166	(3)	\$ (49)	\$ 202	\$ 2,591

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

CONSOLIDATED STATEMENTS OF CASH FLOW
For the year ended December 31
(Canadian dollars in millions)

		2025	2024
Cash flows from (used for)			
Operating			
Net income		\$ 644	\$ 1,720
Adjustments to reconcile to net cash from operations			
Deferred income tax	Note 11	126	(1,235)
Depreciation, amortization and impairment	Note 5	2,012	1,799
Foreign exchange (gain) loss		(195)	623
Employee benefit funding less than expense	Note 9	269	568
Financial instruments recorded at fair value	Note 16	(82)	(28)
Loss on debt settlements and modifications	Note 8	-	8
Change in maintenance provisions		82	192
Changes in non-cash working capital balances		758	214
Other		43	69
Net cash flows from operating activities		3,657	3,930
Financing			
Proceeds from borrowings	Note 8	231	1,590
Repayments of long-term debt and lease liabilities	Note 8	(1,744)	(3,956)
Shares purchased for cancellation	Note 12	(859)	(473)
Issue of shares	Note 12	2	1
Financing fees	Note 8	-	(34)
Net cash flows used in financing activities		(2,370)	(2,872)
Investing			
Short-term investments, net		1,475	633
Disposals of long-term investments		1,313	2,042
Purchase of long-term investments		(976)	(1,401)
Additions to property, equipment and intangible assets		(2,910)	(2,636)
Other		93	(1)
Net cash flows used in investing activities		(1,005)	(1,363)
Effect of exchange rate changes on cash and cash equivalents		(5)	6
Increase (decrease) in cash and cash equivalents		277	(299)
Cash and cash equivalents, beginning of year		2,518	2,817
Cash and cash equivalents, end of year		\$ 2,795	\$ 2,518

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

For the years ended December 31, 2025 and 2024
(Canadian dollars except where otherwise indicated)

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF MATERIAL ACCOUNTING POLICIES

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

These financial statements were approved for issue by the Board of Directors of Air Canada on February 12, 2026.

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

A) BASIS OF MEASUREMENT

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

B) PRINCIPLES OF CONSOLIDATION

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

C) PASSENGER AND CARGO REVENUES

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

D) CAPACITY PURCHASE AGREEMENT

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

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

E) AEROPLAN LOYALTY PROGRAM

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

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

Points Earned with Travel

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

Points Earned through Program Partners

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

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

F) OTHER REVENUES

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

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

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

G) EMPLOYEE BENEFITS

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

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

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

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

The liability in respect of minimum funding requirements, if any, is determined using the projected minimum funding requirements, based on management's best estimates of the actuarially determined funded status of the plan, market

discount rates and salary escalation estimates. The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability are recognized immediately in Other comprehensive income and Retained earnings (deficit) without subsequent reclassification to income.

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

H) EMPLOYEE PROFIT SHARING PLANS

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

I) SHARE-BASED COMPENSATION PLANS

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

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

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

Air Canada also maintains an employee share purchase plan. Under this plan, contributions by Air Canada's employees are matched to a specific percentage by Air Canada. Employees must remain with Air Canada and retain their shares until March 31 of the subsequent year for vesting of Air Canada's contributions. These contributions are expensed in Wages, salaries, and benefits expense over the vesting period.

J) MAINTENANCE AND REPAIRS

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

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

K) OTHER OPERATING EXPENSES

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

L) FINANCIAL INSTRUMENTS

Recognition

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

Classification

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

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

Air Canada has implemented the following classifications:

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

Measurement

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

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

Impairment

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

Derivatives and Hedge Accounting

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

associated with purchasing and selling derivatives are classified as operating cash flows in the consolidated statement of cash flow.

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

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

M) FOREIGN CURRENCY TRANSLATION

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

N) INCOME TAXES

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

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

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

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

Air Canada adopted the amendments to IAS 12 Income Taxes regarding the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation for Economic Co-operation and Development in 2024 and applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. There was no impact for the years ended December 31, 2025 and 2024.

O) EARNINGS PER SHARE

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

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding for dilutive potential shares. Air Canada's potentially dilutive shares are comprised of stock options and until their settlement with cash on maturity in July 2025, convertible notes. The number of shares included with respect to time vesting options is computed using the treasury stock method unless they are anti-dilutive. Under this method, the proceeds from the exercise of such instruments are assumed to be used to purchase shares at the average market price for the period and the difference between the number of shares issued upon exercise and the number of shares assumed to be

purchased is included in the calculation. The number of shares included with respect to performance-based employee share options is treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. If the specified conditions are met, then the number of shares included is also computed using the treasury stock method unless they are anti-dilutive.

For the period up to July 2025 when the convertible notes were settled with cash, the weighted average number of shares outstanding in diluted EPS was also adjusted for the number of shares that would be issued on the conversion of the convertible notes. Additionally, the net income was adjusted for the after-tax effect of any changes to net income that would result from the conversion of the convertible notes, including interest recognized in the period, foreign exchange recognized on the debt principal, and the mark to market revaluation of the embedded derivative unless the result of the adjustments was anti-dilutive.

P) AIRCRAFT FUEL INVENTORY AND SPARE PARTS AND SUPPLIES INVENTORY

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

Air Canada did not recognize any write-downs on inventories or reversals of any previous write-downs during the periods presented. Included in Aircraft maintenance is \$114 million related to spare parts and supplies consumed during the year (2024 – \$78 million).

Q) PROPERTY AND EQUIPMENT

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

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

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

R) LEASES

Accounting for Leases and Right-of-Use Assets

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

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

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

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

Aircraft Leases

As at December 31, 2025, Air Canada had 81 aircraft under right-of-use leases (80 aircraft as at December 31, 2024) and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada in accordance with the requirements of IFRS 16. Additionally, Air Canada is the lessee in respect of certain aircraft used by its regional carrier, Jazz, providing services under a capacity purchase agreement and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada. As at December 31, 2025, there were 68 aircraft (81 aircraft as at December 31, 2024) operating under these arrangements on behalf of Air Canada.

Property Leases

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

S) INTANGIBLE ASSETS

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

	Estimated Useful Life	Remaining amortization period as at December 31, 2025
International route rights and slots	Indefinite	Not applicable
Marketing-based trade names	Indefinite	Not applicable
Technology-based (internally developed)	5 to 15 years	1 to 10 years
Contract-based (Aeroplan commercial agreements)	11.5 years	5 years

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

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

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

T) GOODWILL

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

U) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

V) PROVISIONS

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

W) SEGMENT REPORTING

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

X) ACCOUNTING STANDARDS 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 January 1, 2026 adoption.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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 for additional information.

Aeroplan Loyalty Program

Loyalty program accounting requires management to make several estimates including the ETV of Aeroplan Points issued and the breakage on Aeroplan Points. The ETV of Aeroplan Points issued is determined based on the value a passenger receives by redeeming Points for a ticket rather than paying cash. This ETV is estimated with reference to historical Aeroplan redemptions as compared to equivalent ticket purchases after considering similar fare conditions, advance booking periods and other relevant factors including the 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 by management based on historical ticket breakage patterns and other applicable factors such as ticket contract terms. Estimates of breakage may vary in future periods.

Impairment Considerations on Long-lived Assets

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

Depreciation and Amortization Period for Long-lived Assets

Air Canada makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current and future fair values of the assets, Air Canada's fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in jet fuel prices and other operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on aircraft with remaining useful lives greater than five years results in an increase

of \$16 million to annual depreciation expense. For aircraft with shorter remaining useful lives, the residual values are not expected to change significantly.

Maintenance Provisions

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

4. INVESTMENTS, DEPOSITS AND OTHER ASSETS

(Canadian dollars in millions)	2025	2024
Long-term investments	\$ 640	\$ 770
Investment in Chorus (a)	48	49
Restricted cash (b)	117	104
Aircraft related deposit	42	53
Prepayments under maintenance agreements	76	60
Other investments	27	38
Other deposits	9	6
	\$ 959	\$ 1,080

(a) The investment represents Air Canada's holding of 2,223,085 class B voting shares in the capital of Chorus.

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

5. PROPERTY AND EQUIPMENT

(Canadian dollars in millions)	December 31, 2025			December 31, 2024		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Owned tangible assets						
Aircraft and flight equipment	\$ 17,598	\$ 8,159	\$ 9,439	\$ 16,362	\$ 7,416	\$ 8,946
Buildings and leasehold improvements	1,287	785	502	1,225	736	489
Ground and other equipment	927	565	362	809	515	294
Purchase deposits and assets under development	1,945	-	1,945	1,414	-	1,414
Owned tangible assets	\$ 21,757	\$ 9,509	\$ 12,248	19,810	\$ 8,667	\$ 11,143
Right-of-use assets						
Air Canada aircraft	\$ 4,808	\$ 3,179	\$ 1,629	\$ 4,088	\$ 2,905	\$ 1,183
Regional aircraft	1,551	1,245	306	1,598	1,206	392
Land and buildings	637	305	332	610	279	331
Right-of-use assets	\$ 6,996	\$ 4,729	\$ 2,267	\$ 6,296	\$ 4,390	\$ 1,906
Property and equipment	\$ 28,753	\$ 14,238	\$ 14,515	\$ 26,106	\$ 13,057	\$ 13,049

Additions to owned aircraft in 2025 included seven new Airbus A220 and one new Boeing 787-9. Additions through the purchase of leased aircraft included two Airbus A330, three Airbus A321 and five De Havilland Dash 8-400 aircraft. Additions to right-of-use assets included the delivery of six new Boeing 737-8 aircraft. Four Airbus A319 and two Boeing 767 aircraft were sold in 2025 with a loss on disposal of less than \$1 million.

Additions to owned aircraft in 2024 included one new Airbus A220 and one new Boeing 787-9. Additions in 2024 through the purchase of leased aircraft included two Airbus A330 aircraft. Additions in 2024 to right-of-use assets included the delivery of one new Boeing 737-8 aircraft.

Included in aircraft and flight equipment are 33 aircraft and 13 spare engines (2024 – 33 aircraft and 13 spare engines) which are leased to Jazz with a cost of \$619 million (2024 – \$590 million) less accumulated depreciation of \$400 million (2024 – \$335 million) for a net book value of \$219 million (2024 – \$255 million). Depreciation expense for 2025 for these aircraft and flight equipment amounted to \$72 million (2024 – \$59 million).

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

(Canadian dollars in millions)	January 1, 2025	Additions	Reclass	Disposals	Depreciation	December 31, 2025
Owned tangible assets						
Aircraft and flight equipment	\$ 8,946	\$ 1,258	\$ 479	\$ (81)	\$ (1,163)	\$ 9,439
Buildings and leasehold improvements	489	10	58	-	(55)	502
Ground and other equipment	294	114	14	(1)	(59)	362
Purchase deposits and assets under development	1,414	1,082	(551)	-	-	1,945
Owned tangible assets	\$ 11,143	\$ 2,464	\$ -	\$ (82)	\$ (1,277)	\$ 12,248
Right-of-use assets						
Air Canada aircraft	\$ 1,183	\$ 855	\$ -	\$ (2)	\$ (407)	\$ 1,629
Regional aircraft	392	53	-	-	(139)	306
Land and buildings	331	32	-	-	(31)	332
Right-of-use assets	\$ 1,906	\$ 940	\$ -	\$ (2)	\$ (577)	\$ 2,267
Property and equipment	\$ 13,049	\$ 3,404	\$ -	\$ (84)	\$ (1,854)	\$ 14,515

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

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

(Canadian dollars in millions)	2025	2024
Aircraft and flight equipment	\$ 1,163	\$ 1,023
Buildings and leasehold improvements	55	49
Ground and other equipment	59	41
Owned tangible assets	1,277	1,113
Air Canada aircraft	407	391
Regional aircraft	139	115
Land and buildings	31	29
Right-of-use assets	577	535
Property and equipment	1,854	1,648
Spare part and supplies inventory	20	15
Intangible assets	138	136
Depreciation and amortization	\$ 2,012	\$ 1,799

6. INTANGIBLE ASSETS

(Canadian dollars in millions)	International route rights and slots	Contract-based	Marketing-based trade names	Technology-based (internally developed)	Total
Year ended December 31, 2024					
At January 1, 2024	\$ 97	\$ 129	\$ 178	\$ 680	\$ 1,084
Additions	-	-	-	222	222
Amortization	-	(20)	-	(116)	(136)
At December 31, 2024	\$ 97	\$ 109	\$ 178	\$ 786	\$ 1,170
At December 31, 2024					
Cost	\$ 97	\$ 225	\$ 178	\$ 1,425	\$ 1,925
Accumulated amortization	-	(116)	-	(639)	(755)
	\$ 97	\$ 109	\$ 178	\$ 786	\$ 1,170
Year ended December 31, 2025					
At January 1, 2025	\$ 97	\$ 109	\$ 178	\$ 786	\$ 1,170
Additions	-	-	-	233	233
Amortization	-	(19)	-	(119)	(138)
At December 31, 2025	\$ 97	\$ 90	\$ 178	\$ 900	\$ 1,265
At December 31, 2025					
Cost	\$ 97	\$ 225	\$ 178	\$ 1,580	\$ 2,080
Accumulated amortization	-	(135)	-	(680)	(815)
	\$ 97	\$ 90	\$ 178	\$ 900	\$ 1,265

In 2025, technology-based assets with cost and accumulated amortization of \$78 million (2024 – \$56 million) were retired.

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

Impairment Assessment of Indefinite Lived Intangibles

Due to the recoverable amount of both cash-generating units exceeding their respective carrying values by an aggregate amount of approximately \$13 billion, the most recent calculation from the 2024 period was carried forward and used in the impairment test in the current period. Management considered reasonably possible changes in key assumptions using multiple modelling scenarios and sensitivity analysis and determined such changes would not cause the recoverable amount of each CGU to be less than their respective carrying value. In addition, management has updated the impairment review to take into account the most recent projections from Air Canada's annual business plan and these did not impact this conclusion.

The assessment of the recoverable amount of Air Canada's cash-generating units compared to their carrying values was performed based on cash flow projections prepared in 2024. This review was performed in conjunction with the annual impairment review conducted on all intangible assets that have an indefinite life. The allocation of the indefinite lived intangible assets to the cash-generating units was \$172 million to wide-body aircraft and \$103 million to narrow-body aircraft. The recoverable amount of the cash-generating units was measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model would represent a level 3 fair value measurement within the IFRS 13 fair value hierarchy. The cash flows are management's best projections using current and anticipated market conditions covering a five-year period.

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

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

7. GOODWILL

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

In assessing the goodwill for impairment, Air Canada compares the aggregate recoverable amount consisting of the sum of its quoted equity market capitalization and the fair value of its debt to the carrying value of its net assets excluding long-term debt. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition, including as a result of the reviews performed as at December 31, 2025 and 2024. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

8. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	December 31, 2025 (Canadian dollars in millions)	December 31, 2024 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2026 – 2030	5.29	\$ 2,138	\$ 2,930
Floating rate U.S. dollar financing	2027	6.21	192	263
Fixed rate CDN dollar financing	2026 – 2030	3.78	131	147
Floating rate CDN dollar financing	2036 – 2037	3.98	227	-
Fixed rate Japanese yen financing	2027	1.84	103	107
Convertible notes (b)	2025	4.00	-	381
Credit facility – CDN dollar (c)	2028	1.21	1,172	1,131
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar (d)	2026	3.88	1,647	1,726
Senior secured credit facility – U.S. dollar (d)	2031	5.72	1,554	1,641
Long-term debt		4.37	9,164	10,326
Lease liabilities				
Air Canada aircraft	2026 – 2037	5.81	1,591	1,381
Regional aircraft	2026 – 2035	5.15	446	619
Land and buildings	2026 – 2078	5.30	435	433
Lease liabilities (e)		5.60	2,472	2,433
Total debt and lease liabilities excluding unamortized debt issuance costs and discounts		4.63	11,636	12,759
Unamortized debt issuance costs and discounts			(60)	(89)
Total debt and lease liabilities			11,576	12,670
Current portion – Long-term debt			(2,429)	(1,163)
Current portion – Air Canada aircraft			(454)	(411)
Current portion – Regional aircraft			(53)	(153)
Current portion – Land and buildings			(31)	(28)
Total current portion			(2,967)	(1,755)
Long-term debt and lease liabilities			\$ 8,609	\$ 10,915

(a) Aircraft financing (US\$1,698 million, CDN \$358 million and JPY ¥11,749 million) (2024 – US\$2,220 million, CDN \$147 million and JPY ¥11,743 million) is secured primarily by specific aircraft with a carrying value of \$2,989 million (2024 – \$3,585 million). For the majority of the financing, principal and interest is repayable quarterly until maturity and can be repaid at any time with the payment of applicable fees. US\$9 million of the financing is supported by a loan guarantee by the Export-Import Bank of the United States.

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 drew down \$231 million under this facility for 5 A220 aircraft which had been previously delivered. Loans for each aircraft have a final maturity date of 12 years after delivery. Interest rates are floating and are term CORRA plus a margin of 1.73%.

(b) In June 2020, Air Canada closed US\$748 million (\$1,011 million) of convertible unsecured notes (“Convertible Notes”), for net proceeds of \$986 million. The conversion rate of the Convertible Notes was 65.1337 shares per US\$1,000 principal amount of Convertible Notes, or a conversion price of approximately US\$15.35 per share, subject to adjustment in certain events in accordance with the indenture.

In 2022, Air Canada repurchased \$635 million (US\$473 million) aggregate principal amount of its outstanding Convertible Notes. As at December 31, 2024, \$394 million (US\$274 million) aggregate principal amount of Convertible Notes remained outstanding.

The convertible notes were settled with cash following their maturity on July 1, 2025. Air Canada's option to deliver cash or a combination of cash and shares on the conversion date in lieu of shares (based on the daily conversion values for 40 consecutive trading days) gave rise to an embedded derivative financial liability measured separately at fair value through profit or loss. At maturity, the fair value of the embedded derivative was nil (December 31, 2024 - \$45 million) and Air Canada recorded a gain of \$45 million for the year ended December 31, 2025 (\$11 million gain for the year 2024). Refer to Note 16.

(c) Government of Canada unsecured credit facility to support customer refunds of non-refundable tickets in 2021. The facility has a seven-year term maturing April 2028 with a stated annual interest rate of 1.211%, with the balance due on maturity. The carrying value of the debt was recognized at inception using an effective interest rate of 4.90%. The difference accretes the carrying value of the underlying debt upwards to its face value of \$1,273 million using the effective interest rate method.

(d) In August 2021, Air Canada completed a private offering of \$2.0 billion of 4.625% senior secured notes due in 2029 (the "Canadian Dollar Notes") and US\$1.2 billion of 3.875% senior secured notes due in 2026 (the "US Dollar Notes", and together with the Canadian Dollar Notes, the "Senior Secured Notes").

In March 2024, Air Canada entered into US\$2.15 billion senior secured credit facilities, comprised of a US\$1.175 billion term loan B maturing in 2031 and a US\$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US\$1.09 billion, were applied to refinance all of Air Canada's indebtedness outstanding under its previous US\$2.265 billion term loan B maturing in 2028. The term loan B had interest at SOFR (Secured Overnight Financing Rate) plus 250 basis points. The US\$975 million revolving credit facility is undrawn as of December 31, 2025. Air Canada recorded a loss of \$46 million on debt settlements related to the write-off of unamortized debt issuance costs associated with the extinguished debt instruments in 2024.

In November 2024, Air Canada completed a repricing of its US\$1.175 billion term loan B, reducing the interest rate by 50 basis points, to an interest rate of 2% over SOFR. Air Canada recorded a \$38 million gain on debt modification related to this transaction. In January 2026, the facility was increased by US\$200 million and repriced with a reduction to the interest rate by 25 basis points, to an interest rate of 1.75% over SOFR.

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

(e) Lease liabilities, related to facilities and aircraft, total \$2,472 million (\$397 million, US\$1,497 million and GBP £10 million) (2024 – \$2,433 million (\$391 million, US\$1,404 million and GBP £12 million)). The carrying value of aircraft and facilities under lease liabilities amounted to \$1,936 million and \$332 million respectively (2024 – \$1,679 million and \$331 million).

Cash interest paid on Long-term debt and lease liabilities in 2025 by Air Canada was \$591 million (2024 – \$696 million).

Air Canada has recorded Interest expense as follows:

(Canadian dollars in millions)	2025	2024
Interest on debt	\$ 522	\$ 621
Interest on lease liabilities		
Air Canada aircraft	92	82
Regional aircraft	27	36
Land and buildings	22	24
Interest expense	\$ 663	\$ 763

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

(Canadian dollars in millions)	2025	2024
Short-term leases	\$ 11	\$ 16
Variable lease payments not included in lease liabilities	65	65
Expense related to leases (included in Other operating expenses)	\$ 76	\$ 81

Total cash outflows for payments on lease liabilities was \$749 million for the year ended December 31, 2025 (2024 – \$678 million), of which \$608 million was for principal repayments (2024 – \$536 million).

Maturity Analysis

Principal and interest repayment requirements as at December 31, 2025 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the December 31, 2025 closing rate of CDN\$1.37.

Principal (Canadian dollars in millions)	2026	2027	2028	2029	2030	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 2,429	\$ 1,068	\$ 1,389	\$ 2,313	\$ 452	\$ 1,644	\$ 9,295
Air Canada aircraft	454	297	241	153	111	335	1,591
Regional aircraft	53	41	40	40	40	232	446
Land and buildings	31	31	30	23	21	299	435
Lease liabilities	538	369	311	216	172	866	2,472
Total long-term debt and lease liabilities	\$ 2,967	\$ 1,437	\$ 1,700	\$ 2,529	\$ 624	\$ 2,510	\$ 11,767

Interest (Canadian dollars in millions)	2026	2027	2028	2029	2030	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 382	\$ 285	\$ 316	\$ 499	\$ 101	\$ 40	\$ 1,623
Air Canada aircraft	84	62	46	32	23	56	303
Regional aircraft	21	19	17	14	12	30	113
Land and buildings	22	20	18	17	16	189	282
Lease liabilities	127	101	81	63	51	275	698
Total long-term debt and lease liabilities	\$ 509	\$ 386	\$ 397	\$ 562	\$ 152	\$ 315	\$ 2,321

(1) The full principal balance of \$1,273 million for the unsecured credit facility due in 2028 and \$1,584 million (US\$1,154 million) for the term loan B maturing in 2031 is included and the carrying value is described in Note 8 (c) and 8(d), respectively.

Principal repayments in the table above exclude discounts and transaction costs of \$60 million which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.

Cash Flows from Financing Activities

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

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Dec. 31, 2025
	Jan. 1, 2025	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 10,326	\$ 231	\$ (1,136)	\$ -	\$ (317)	\$ 60	\$ -	\$ 9,164
Air Canada aircraft	1,381	-	(428)	-	(75)	-	713	1,591
Regional aircraft	619	-	(150)	-	(25)	-	2	446
Land and buildings	433	-	(30)	-	-	-	32	435
Lease liabilities	2,433	-	(608)	-	(100)	-	747	2,472
Unamortized debt issuance costs and other adjustments	(89)	-	-	-	-	29	-	(60)
Total liabilities from financing activities	\$ 12,670	\$ 231	\$ (1,744)	\$ -	\$ (417)	\$ 89	\$ 747	\$ 11,576

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

9. PENSIONS AND OTHER BENEFIT LIABILITIES

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

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

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

Pension Plan Cash Funding Obligations

As at January 1, 2025, the aggregate solvency surplus in the Domestic Registered Plans was \$4.4 billion which takes into account certain plan amendments made in conjunction with the Air Line Pilots Association (ALPA) and the Canadian Union of Public Employees (CUPE) collective agreements. The next required valuation to be made as at January 1, 2026 will be completed in the first half of 2026. With Air Canada’s Domestic Registered Plans in a solvency surplus position as at January 1, 2025, past service contributions were not required in 2025. In addition, in accordance with legislation and applicable plan rules, the excess over 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contributions to a defined contribution component within the same pension plan. Based on that, and including the international and supplemental plans, the total employer pension funding contributions during 2025 amounted to \$72 million (net employer contributions of \$39 million reflect the \$33 million of surplus used to fund employer contributions in defined contribution components of the same plans). Pension funding contributions for 2026 are expected to be \$73 million.

Benefit Obligations and Plan Assets

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

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits		Total	
	2025	2024	2025	2024	2025	2024
Non-current assets						
Pension assets	\$ 2,513	\$ 2,535	\$ -	\$ -	\$ 2,513	\$ 2,535
Current liabilities						
Accounts payable and accrued liabilities	-	-	67	65	67	65
Non-current liabilities						
Pension and other benefit liabilities	553	830	981	1,012	1,534	1,842
Net benefit assets (obligations)	\$ 1,960	\$ 1,705	\$ (1,048)	\$ (1,077)	\$ 912	\$ 628

The current portion of the net benefit obligation represents an estimate of other employee future benefits claims to be paid during 2026.

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

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
Change in benefit obligations				
Benefit obligations at beginning of year	\$ 18,421	\$ 18,309	\$ 1,077	\$ 1,098
Current service cost	195	190	22	25
Past service cost (a)	155	490	2	(2)
Interest cost	858	845	51	51
Employees' contributions	69	76	-	-
Benefits paid	(1,033)	(1,027)	(54)	(43)
Effect of transfers	-	23	-	-
Settlement payments for UK plan	-	(283)	-	-
Remeasurements:				
Experience loss (gain)	(36)	(33)	4	(18)
Gain from change in demographic assumptions	(171)	(14)	(13)	(27)
Gain from change in financial assumptions	(448)	(194)	(34)	(19)
Foreign exchange loss (gain)	(11)	39	(7)	12
Total benefit obligations	17,999	18,421	1,048	1,077
Change in plan assets				
Fair value of plan assets at beginning of year	22,061	21,949	-	-
Return on plan assets, excluding amounts included in Net financing expense	481	258	-	-
Interest income	1,023	1,005	-	-
Employer contributions	39	72	54	43
Employees' contributions	69	76	-	-
Benefits paid	(1,033)	(1,027)	(54)	(43)
Settlement payments for UK plan	-	(300)	-	-
Administrative expenses paid from plan assets	(9)	(8)	-	-
Foreign exchange gain (loss)	(9)	36	-	-
Total plan assets	22,622	22,061	-	-
Surplus (deficit) at end of year	4,623	3,640	(1,048)	(1,077)
Asset ceiling / additional minimum funding liability	2,663	1,935	-	-
Net benefit assets (obligations)	\$ 1,960	\$ 1,705	\$ (1,048)	\$ (1,077)

The actual return on plan assets was a gain of \$1,504 million (2024 – \$1,263 million gain).

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

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

(Canadian dollars in millions)	2025	2024
Domestic Registered Plans	\$ 10	\$ 7
International plans	34	51
Supplementary plans	509	772
	\$ 553	\$ 830

The weighted average duration of the defined benefit obligation is 12.3 years (2024 – 12.6 years).

Pension and Other Employee Future Benefit Expense

Air Canada has recorded net defined benefit pension and other employee future benefits expense as follows:

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2025	2024	2025	2024
Consolidated Statement of Operations				
Components of cost				
Current service cost	\$ 195	\$ 190	\$ 22	\$ 25
Past service cost (a)	155	490	2	(2)
Administrative and other expenses	9	8	-	-
Actuarial losses (gains), including foreign exchange	-	-	3	(6)
Total cost recognized in Wages, salaries and benefits	\$ 359	\$ 688	\$ 27	\$ 17
Net interest relating to employee benefits in Non-operating-other	\$ (75)	\$ (74)	\$ 51	\$ 52
Total cost recognized in statement of operations	\$ 284	\$ 614	\$ 78	\$ 69
Consolidated Other Comprehensive (Income) Loss				
Remeasurements:				
Experience loss (gain), including foreign exchange	(38)	(30)	(5)	(4)
(Gain) from change in demographic assumptions	(171)	(14)	(13)	(27)
Loss (gain) from change in financial assumptions	(448)	(194)	(34)	(15)
Return on plan assets	(489)	(258)	-	-
Change in asset ceiling	637	(46)	-	-
Total cost (income) recognized in OCI	\$ (509)	\$ (542)	\$ (52)	\$ (46)

a) In August 2025, Air Canada reached a tentative four-year collective agreement with CUPE, the union representing its flight attendants, which was not ratified. Air Canada and CUPE had contemplated the possibility that the agreement might not be ratified and determined the wage portion of the tentative agreement would go to mediation and, if a deal still could not be reached, to binding arbitration. All other items, such as ground pay, improvements to benefits, pensions and scheduling rules, were to be implemented without the need for mediation or arbitration, in accordance with the terms of the agreement. On September 12, 2025, CUPE asked to dispense with mediation and proceed directly to binding arbitration for the wage portion, to which Air Canada consented. Any change in wages that is determined during arbitration will be retroactive to April 1, 2025. In this regard, Air Canada recorded a one-time pension past service cost of \$149 million in 2025 to reflect pension changes included in the tentative agreement as they are now in effect. Some of these changes are conditional on future pension solvency financial positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. The net impact of these changes will be funded out of the surplus in the flight attendants' domestic registered pension plans and are not expected to impact Air Canada's liquidity position.

In addition, other labour related charges of \$45 million were recorded by Air Canada in 2025.

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

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

(Canadian dollars in millions)	2025	2024
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations		
Wages, salaries and benefits	\$ 386	\$ 705
Net interest relating to employee benefit liabilities	(24)	(22)
	\$ 362	\$ 683
Employee benefit funding by Air Canada		
Pension benefits	\$ 39	\$ 72
Other employee benefits	54	43
	\$ 93	\$ 115
Employee benefit funding less than expense	\$ 269	\$ 568

Composition of Defined Benefit Pension Plan Assets

Domestic Registered Plans

The composition of the Domestic Registered Plan assets is the following:

	2025	2024
Fixed income investments	56%	54%
Canadian equities	2%	2%
Foreign equities	3%	3%
Alternative investments	39%	41%
	100%	100%

Approximately 61% of the Domestic Registered Plan assets as of December 31, 2025 have a quoted market price in an active market. Assets that do not have a quoted market price in an active market are mainly investments in privately held entities. The asset composition in the table represents the allocation of plan assets to each asset type.

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (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.

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

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

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

- The fixed income portfolio is oriented toward long-term investment grade securities rated "BBB" or higher, with the exception of Government of Canada securities, or those of a province thereof or of the U.S. Government, in which the plan may invest the entire fixed income allocation.
- Within the broad equity portfolio (Canadian and foreign equities), limitations are placed on the allocation to any individual security.

- Alternative investments are investments in non-publicly traded securities and in non-traditional asset classes. They may comprise, but are not limited to, investments in real estate, agriculture, timber, private equity, venture capital, infrastructure, emerging markets debt, high yield bonds and commodity futures. The Alternative investments portfolio is required to be diversified by asset class, strategy, sector and geography.

As at December 31, 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 related to its actuarial liabilities. This comprises a combination of financial instruments including, but not limited to, bonds, bond repurchase and reverse repurchase agreements, bond forwards, bond futures and interest rate swaps.

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

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

Risks

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

Asset risk

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans' bond holdings. As at December 31, 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 risk (discount rate risk).

Funding risk

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

Life expectancy

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

Assumptions

Management is required to make estimates about actuarial and financial assumptions to determine the cost and related liabilities of 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)
	\$ 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.

Defined Contribution Pension Plans

Certain of Air Canada's management, administrative and unionized employees participate in a defined contribution pension plan, a defined contribution component of a plan which also includes a defined benefit component or a multi-employer plan which are accounted for as defined contribution plans. Air Canada contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group and for some groups, based on the number of years of service. As permitted by legislation and applicable plan rules, surplus in the defined benefit component can be used to cover the employer contributions in the defined contribution component of such plan. As such, \$33 million of surplus in the defined benefit components of the Domestic Registered Plans was used to cover the employer contributions in the defined contribution components during 2025 (2024 – \$30 million).

Air Canada's expense for these pension plans amounted to \$140 million for the year ended December 31, 2025 (2024 – \$115 million). Net of the surplus in the defined benefit components which can be used to fund the employer contribution to a defined contribution component within the same pension plan, expected total employer contributions for 2026 are \$111 million.

10. PROVISIONS FOR OTHER LIABILITIES

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

(Canadian dollars in millions)	Maintenance (a)	Asset retirement (b)	Litigation	Total provisions
At December 31, 2024				
Current	\$ 242	\$ 34	\$ 53	\$ 329
Non-current	1,431	35	-	1,466
	\$ 1,673	\$ 69	\$ 53	\$ 1,795
Provisions arising during the year	\$ 176	-	15	191
Amounts utilized	(145)	-	(1)	(146)
Changes in estimated costs	(30)	1	-	(29)
Accretion expense	67	1	-	68
Foreign exchange gain	(86)	-	-	(86)
At December 31, 2025	\$ 1,655	\$ 71	\$ 67	\$ 1,793
Current	\$ 314	\$ 34	\$ 67	\$ 415
Non-current	1,341	37	-	1,378
	\$ 1,655	\$ 71	\$ 67	\$ 1,793

- (a) Maintenance provisions relate to the provision for the costs to meet the contractual return conditions on aircraft under operating leases. The provision relates to leases with expiry dates ranging from 2026 to 2036 with the average remaining lease term of approximately 3 years. The maintenance provisions take into account current costs of maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Assuming the aggregate cost for return conditions increases by 5%, holding all other factors constant, there would be a cumulative balance sheet adjustment to increase the provision by \$82 million at December 31, 2025 and an increase to maintenance expense in 2026 of approximately \$9 million. Expected future cash flows to settle the obligation are discounted. If the discount rates were to increase by 1%, holding all other factors constant, there would be a cumulative balance sheet adjustment to decrease the provision by \$23 million at December 31, 2025. An equivalent but opposite movement in the discount rate would result in a similar impact in the opposite direction.
- (b) Under the terms of certain land and facilities leases, Air Canada has an obligation to restore the land to vacant condition at the end of the lease and to rectify any environmental damage for which it is responsible. The related leases expire over terms ranging from 2026 to 2078. These provisions are based on numerous assumptions including the overall cost of decommissioning and remediation and the selection of alternative decommissioning and remediation approaches. The non-current provision is recorded in Other long-term liabilities. A charge of \$34 million was recorded in 2024 in other operating expenses related to estimated costs related to contractual lease obligations.

11. INCOME TAXES

Income Tax Recovery (Expense)

Income tax recorded in the consolidated statement of operations is presented below.

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

For the year ended December 31, 2024, Air Canada recognized in the consolidated statement of operations \$1,503 million) of previously unrecognized deferred income tax assets, and (\$268) million related to the origination and reversal of temporary differences. Refer to Deferred income tax section below for additional information on the recognition of deferred income tax assets.

The income tax recovery (expense) differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

(Canadian dollars in millions)	2025	2024
Income before income taxes	\$ 789	\$ 515
Statutory income tax rate based on combined federal and provincial rates	26.53%	26.49%
Income tax (expense) recovery based on statutory tax rates	(209)	(136)
Effects of:		
Non-taxable (non-deductible) portion of capital gains (losses)	37	(70)
Recognition of deferred income tax assets	-	1,503
Recognition of (unrecognized) capital losses	37	(69)
Non-deductible items	(18)	(30)
Other	8	7
Income tax recovery (expense)	\$ (145)	\$ 1,205

The applicable statutory tax rate is 26.53% (2024 – 26.49%). Air Canada's applicable tax rate is the Canadian combined tax rate applicable in the jurisdiction in which Air Canada operates. The income tax recovery in the consolidated statement of operations differs from the amount that would have resulted from applying the statutory income tax rate to the income before income taxes in the consolidated statement of operations primarily due to recognizing only certain of the deferred income tax assets prior to the third quarter of 2024, as described further below.

Income tax recorded in the consolidated statement of comprehensive income is presented below.

(Canadian dollars in millions)	2025	2024
Remeasurements on employee benefit liabilities		
- current income tax expense	\$ (11)	\$ (1)
- deferred income tax expense	(141)	(287)
Remeasurements on fuel derivatives designated as cash flow hedge		
- deferred income tax recovery (expense)	1	-
Income tax (expense)	\$ (151)	\$ (288)

The income tax differs from the amount that would have resulted from applying the statutory income tax rate to other comprehensive income before income tax expense as follows:

(Canadian dollars in millions)	2025	2024
Other comprehensive income before income taxes	\$ 556	\$ 597
Statutory income tax rate based on combined federal and provincial rates	26.53%	26.49%
Income tax expense based on statutory tax rates	(148)	(158)
Non-taxable (non-deductible) portion of capital gain (capital loss)	-	1
Recognition of deferred income tax liability	-	(129)
Other	(3)	(2)
Income tax (expense)	\$ (151)	\$ (288)

Income tax recorded in shareholders' equity is presented below.

(Canadian dollars in millions)	2025	2024
Share based compensation		
- deferred income tax recovery	\$ -	\$ 19
Share issue cost		
- deferred income tax recovery	1	22
Income tax recovery	\$ 1	\$ 41

Deferred Income Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

In this regard and in connection with the preparation of the financial statements for the period ended September 30, 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets would be realized. Accordingly, previously unrecognized deferred income tax assets 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 expense recorded in the consolidated statement of comprehensive income of \$139 million related to remeasurements on net employee benefit liabilities and tax recovery recorded in the consolidated statement of changes in equity of \$41 million.

As of December 31, 2025, deferred tax assets and liabilities of \$774 million are recorded net as a non-current deferred income tax asset on the consolidated statement of financial position. Certain intangible assets with nominal tax cost and a carrying value of \$275 million have indefinite lives and accordingly, the associated deferred income tax liability of \$73 million (2024 – \$73 million) is not expected to reverse until the assets are disposed of, become impaired or amortizable and as a result is included as part of the non-current deferred income tax liability.

The significant components of deferred income tax assets and liabilities were as follows:

(Canadian dollars in millions)	2025	2024
Deferred income tax assets		
Non-capital losses	\$ 1,964	\$ 1,951
Accounting provisions not currently deductible for tax	151	129
Investment tax credits and recoverable taxes	40	40
Lease liabilities	756	768
Maintenance provisions	439	443
Deferred revenue	156	192
	3,506	3,523
Deferred income tax liabilities		
Post-employment obligations – pension and other employee future benefits	(229)	(167)
Property, equipment, technology-based and other intangible assets	(2,455)	(2,253)
Indefinite-lived intangible assets	(73)	(73)
Other	(48)	(64)
	(2,805)	(2,557)
Net recognized deferred income tax assets	\$ 701	\$ 966
Balance sheet presentation		
Deferred income tax assets	774	1,039
Deferred income tax liabilities	(73)	(73)
Net recognized deferred income tax assets	\$ 701	\$ 966

The following table presents the variation of the components of deferred income tax balances:

(Canadian dollars in millions)	January 1, 2025	2025 income statement movement	2025 OCI movement	2025 equity movement	December 31, 2025
Non-capital losses	\$ 1,951	13	-	-	\$ 1,964
Accounting provisions not currently deductible for tax	129	22	-	-	151
Investment tax credits and recoverable taxes	40	-	-	-	40
Lease liabilities	768	(12)	-	-	756
Maintenance provisions	443	(4)	-	-	439
Deferred revenues	192	(36)	-	-	156
Post-employment obligations – pension and other employee future benefits	(167)	79	(141)	-	(229)
Property, equipment, technology-based and other intangible assets	(2,253)	(202)	-	-	(2,455)
Indefinite-lived intangible assets	(73)	-	-	-	(73)
Other deferred tax assets (liabilities)	(64)	14	1	1	(48)
Total recognized deferred income tax assets (liabilities)	\$ 966	(126)	(140)	1	\$ 701

(Canadian dollars in millions)	January 1, 2024	2024 income statement movement	2024 OCI movement	2024 equity movement	December 31, 2024
Non-capital losses	\$ 1,927	(16)	-	40	\$ 1,951
Accounting provisions not currently deductible for tax	7	122	-	-	129
Investment tax credits and recoverable taxes	-	40	-	-	40
Lease liabilities	783	(15)	-	-	768
Maintenance provisions	-	443	-	-	443
Deferred revenues	-	192	-	-	192
Post-employment obligations – pension and other employee future benefits	(460)	580	(287)	-	(167)
Property, equipment, technology-based and other intangible assets	(2,128)	(125)	-	-	(2,253)
Indefinite-lived intangible assets	(73)	-	-	-	(73)
Other deferred tax assets (liabilities)	(79)	14	-	1	(64)
Total recognized deferred income tax assets (liabilities)	\$ (23)	1,235	(287)	41	966

As at December 31, 2025, Air Canada has net capital losses carryforwards of approximately \$343 million available for income tax purposes as well as unrealized deductible foreign exchange losses and net capital losses of \$110 million, for which no deferred income tax asset has been recognized at this time as the ability to utilize these tax attributes is limited to future taxable capital gains. While the net capital losses remain available for use, the recognition criteria for accounting is not met at this time. Net capital losses do not have an expiry date.

The following are the temporary differences and tax loss carryforwards for which no deferred income tax assets could be recognized:

(Canadian dollars in millions)	2025	2024
Net capital losses carryforwards	343	241
Unrealized deductible foreign exchange losses and net capital losses	110	354
Total unrecognized net temporary differences	\$ 453	\$ 595
Deferred income tax rate based on combined federal and provincial rates	26.54%	26.49%
Total unrecognized net deferred income tax assets	\$ 120	\$ 158

The following are the Federal non-capital tax losses expiry dates:

(Canadian dollars in millions)	Tax Losses
2034	\$ 1
2040	1,389
2041	4,259
2042	1,621
2045	25
Non-capital losses carryforwards	\$ 7,295

Cash income taxes paid in 2025 by Air Canada were \$48 million (2024 – \$50 million recovered).

12. SHARE CAPITAL

	Number of shares	Value (Canadian dollars in millions)
At January 1, 2024	358,469,286	\$ 2,744
Shares issued on the exercise of stock options	41,536	1
Shares purchased and cancelled under issuer bid	(18,671,700)	(155)
Deferred tax asset recognition	-	22
At December 31, 2024	339,839,122	2,612
Shares issued on the exercise of stock options	145,571	3
Shares purchased and cancelled under issuer bid	(45,435,073)	(340)
At December 31, 2025	294,549,620	2,275

The issued and outstanding shares of Air Canada, along with the potential shares, were as follows:

	2025	2024
Issued and outstanding		
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	294,549,620	339,839,122
Potential shares		
Convertible notes	Note 8	-
Stock options	Note 13	12,137,096
Total outstanding and potentially issuable shares	306,686,716	366,926,494

Shares

As at December 31, 2025, the shares issuable by Air Canada consist of an unlimited number of Class A Variable Voting Shares ("Variable Voting Shares") and an unlimited number of Class B Voting Shares ("Voting Shares"). The two classes of shares have equivalent rights as shareholders except for voting rights as explained below.

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the *Canada Transportation Act*). An issued and outstanding Variable Voting Share is converted into one Voting Share automatically and without any further act of Air Canada or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the *Canada Transportation Act*.

Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share is converted into one Variable Voting Share automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Air Canada's articles provide that holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Air Canada exceeds 49% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 49% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 49% of the aggregate votes attached to all issued and outstanding Voting Shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% of the votes that may be cast at such meeting. Air Canada's articles also provide for the automatic reduction of the voting rights attached to Variable Voting Shares in the event any of the following limits are exceeded. In such event, the votes attributable to Variable Voting Shares will be affected as follows:

- *first*, if required, a reduction of the voting rights of any single non-Canadian holder (including a single non-Canadian holder authorized to provide an air service) carrying more than 25% of the votes to ensure that such non-Canadian holder never carries more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders;
- *second*, if required and after giving effect to the first proration set out above, a further proportional reduction of the voting rights of all non-Canadian holders authorized to provide an air service to ensure that such non-Canadian holders authorized to provide an air service, in the aggregate, never carry more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders; and
- *third*, if required and after giving effect to the first two prorations set out above, a proportional reduction of the voting rights for all non-Canadian holders as a class to ensure that non-Canadians never carry, in aggregate, more than 49% of the votes which holders of Voting Shares cast at any meeting of shareholders.

Shareholder Rights Plan

Under the terms of the shareholder rights plan agreement (the “Rights Plan”), one right (a “Right”) is issued with respect to each share of Air Canada issued and outstanding. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding shares of Air Canada calculated on a combined basis, without complying with the “Permitted Bid” provisions of the Rights Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the shares, are not exercisable and no separate rights certificates are issued. To qualify as a “Permitted Bid” under the Rights Plan, a bid must, among other things: (i) be made to all holders of shares, (ii) remain open for a period of not less than 105 days (or such shorter minimum period determined in accordance with National Instrument 62-104 – *Take-Over Bids and Issuer Bids* (“NI 62-104”), (iii) provide that no shares shall be taken up unless more than 50% of the then outstanding shares, other than the shares held by the person pursuing the acquisition and parties related to it, have been tendered and not withdrawn, and (iv) provide that if such 50% condition is satisfied, the bid will be extended for at least 10 days to allow other shareholders to tender.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Rights Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase from Air Canada two hundred dollars’ worth of shares for one hundred dollars (i.e. at a 50% discount to the market price at that time). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Class B Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Class A Variable Voting Shares.

The renewal of the Rights Plan was ratified at Air Canada’s 2023 annual meeting of shareholders. The Rights Plan remains in effect until the day immediately following Air Canada’s 2026 annual meeting of shareholders. It could then be further renewed for an additional period of three years from 2026 to 2029 if the shareholders so choose at or prior to their 2026 annual meeting.

Convertible Notes

As described in Note 8, the convertible notes were settled with cash following their maturity on July 1, 2025. The conversion rate of the convertible notes was 65.1337 shares per US\$1,000 principal amount of convertible notes.

Normal Course Issuer Bids

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

In 2024, Air Canada purchased, for cancellation, 20,279,100 shares at an average cost of \$23.92 per share for aggregate consideration of \$485 million (of which 1,607,400 shares were cancelled in the first business days after December 31, 2024 related to administrative delay between purchase and cancellation in the books of the registrar). The excess of the cost over the book value of \$330 million was charged to Retained Earnings (deficit), together with \$10 million in share buyback tax.

In the first quarter of 2025, Air Canada purchased an additional 15,504,742 shares for aggregate consideration of \$315 million effectively purchasing the maximum amount of 35,783,842 shares available for purchase for cancellation under its Issuer Bid. The excess of the cost over the book value of \$196 million was charged to Retained earnings (deficit), together with \$6 million in share buyback tax.

In the fourth quarter of 2025, Air Canada received approval from the TSX to launch a normal course issuer bid allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 7, 2025 to November 6, 2026, up to 29,557,428 shares, representing about 10% of the public float of its shares as at October 24, 2025. In the 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). The excess of the cost over the book value of \$19 million was charged to Retained earnings (deficit), together with \$1 million in share buyback tax.

Substantial Issuer Bid

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

The Offer was made by way of a modified “Dutch auction” under which shareholders wishing to tender could do so through (i) an auction tender at a price not less than \$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 Offer and not withdrawn pursuant to auction tenders at or below \$18.80 or purchase price tenders. As the Offer 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. The excess of the cost over the book value of \$294 million was charged to Retained earnings (deficit), together with \$10 million in share buyback tax.

13. SHARE-BASED COMPENSATION

Air Canada Long-term Incentive Plan

Certain of Air Canada's employees participate in the Air Canada Long-term Incentive Plan which provides for the grant of stock options, performance share units and restricted share units to senior management and officers of Air Canada. With respect to the stock options, 1,894,088 shares are available for future grants of options under the Long-term Incentive Plan. The outstanding performance share units and restricted share units will generally not result in the issuance of new shares as these share units will be redeemed for shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of Air Canada.

Stock Options

The options to purchase shares granted under the Long-term Incentive Plan have a maximum term of up to ten years and an exercise price based on the fair market value of the shares at the time of the grant of the options. Fifty percent of options are time-based and vest over four years. The remaining options vest based upon performance conditions, which are based on operating margin (operating income over operating revenues) targets established by the Air Canada Board over the same time period. Each option entitles the employee to purchase one share at the stated exercise price.

The number of Air Canada stock options granted to employees, the related compensation expense recorded and the assumptions used to determine stock-based compensation expense, using the Black-Scholes option valuation model are as follows:

	2025	2024
Compensation expense (\$ millions)	\$ 18	\$ 16
Number of stock options granted to Air Canada employees	3,202,728	2,674,553
Weighted average fair value per option granted (\$)	\$ 5.76	\$ 6.59
Aggregated fair value of options granted (\$ millions)	\$ 18	\$ 18
Weighted average assumptions:		
Share price	\$ 16.94	\$ 18.23
Risk-free interest rate	2.48%-2.91%	2.72%-3.59%
Expected volatility	35.09%	36.20%
Dividend yield	0%	0%
Expected option life (years)	5.25	5.25

Expected volatility was determined at the time of grant using the share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

A summary of the Long-term Incentive Plan option activity is as follows:

	2025		2024	
	Options	Weighted Average Exercise Price/Share	Options	Weighted Average Exercise Price/Share
Beginning of year	9,230,773	\$ 23.15	6,642,516	\$ 25.10
Granted	3,202,728	16.94	2,674,553	18.23
Exercised	(145,571)	11.74	(41,536)	14.79
Expired	(67,672)	30.21	(38,533)	26.83
Forfeited	(83,162)	18.12	(6,227)	20.03
Outstanding options, end of year	12,137,096	\$ 21.64	9,230,773	\$ 23.15
Options exercisable, end of year	5,283,587	\$ 26.31	3,960,001	\$ 27.27

The weighted average share price on the date of exercise for options exercised in 2025 was \$19.05 (2024 – \$21.20).

Range of Exercise Prices	Expiry Dates	2025 Outstanding Options			2025 Exercisable Options	
		Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$12.83 - \$26.40	2027	328,862	2	15.24	328,862	15.24
\$22.53 - \$27.75	2028	781,550	3	26.52	781,550	26.52
\$33.11 - \$43.22	2029	803,678	4	33.26	803,678	33.26
\$15.35 - \$32.42	2030	1,108,996	5	31.23	1,108,996	31.23
\$23.80 - \$26.93	2031	536,331	6	25.37	536,331	25.37
\$17.37 - \$24.61	2032	1,149,127	7	24.35	983,220	24.50
\$17.61 - \$24.19	2033	1,617,391	8	19.88	411,249	19.96
\$16.47 - \$18.32	2034	2,637,637	9	18.23	329,701	18.23
\$14.07 - \$17.03	2035	3,173,524	10	16.94	-	-
		12,137,096		\$ 21.64	5,283,587	\$ 26.31

Range of Exercise Prices	Expiry Dates	2024 Outstanding Options			2024 Exercisable Options	
		Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$9.41	2026	68,498	2	9.41	68,498	9.41
\$12.83 - \$26.40	2027	403,631	3	14.95	403,631	14.95
\$22.53 - \$27.75	2028	787,654	4	26.52	787,654	26.52
\$33.11 - \$43.22	2029	827,385	5	33.27	827,385	33.27
\$15.35 - \$32.42	2030	1,133,935	6	31.25	1,120,335	31.44
\$23.80 - \$26.93	2031	541,757	7	25.37	251,122	25.39
\$17.37 - \$24.61	2032	1,162,376	8	24.30	289,449	24.34
\$17.61 - \$24.19	2033	1,630,984	9	19.88	211,927	20.06
\$16.47 - \$18.32	2034	2,674,553	10	18.23	-	-
		9,230,773		\$ 23.15	3,960,001	\$ 27.27

Performance and Restricted Share Units

The Long-term Incentive Plan also includes performance share units (“PSUs”) and restricted share units (“RSUs”). 75% of PSUs granted vest based on Air Canada achieving its cumulative annual earnings target over a three-year period, while 25% of PSUs vest based on relative total shareholder returns over the same three-year period. RSUs vest after three years from their date of grant. The PSUs and RSUs granted are generally redeemed for Air Canada shares purchased on the secondary market and/or equivalent cash at the discretion of the Board of Directors.

The compensation expense related to PSUs and RSUs in 2025 was \$27 million (2024 – \$35 million).

A summary of the Long-term Incentive Plan share unit activity is as follows:

	2025	2024
Beginning of year	5,218,941	4,034,091
Granted	2,353,916	2,104,796
Settled	(1,141,184)	(801,791)
Forfeited	(253,375)	(118,155)
Outstanding share units, end of year	6,178,298	5,218,941

Employee Share Purchase Plan

Eligible employees can participate in the employee share purchase plan under which employees can invest between 2% and 10% of their base salary for the purchase of shares on the secondary market. Air Canada will match 33.33% of the contributions made by employees. During 2025, Air Canada recorded compensation expense of \$30 million (2024 – \$25 million) related to the Employee Share Purchase Plan.

14. EARNINGS PER SHARE

The following table outlines the calculation of basic and diluted earnings per share:

(in millions, except per share amounts)	2025	2024
Numerator:		
Net income	\$ 644	\$ 1,720
Effect of assumed conversion of convertible notes	(47)	56
Adjusted numerator for diluted earnings per share	\$ 597	\$ 1,776
Denominator:		
Weighted-average shares	311	358
Effect of potential dilutive securities:		
Stock options	-	-
Convertible notes	9	18
Adjusted denominator for diluted earnings per share	320	376
Basic earnings per share	\$ 2.07	\$ 4.81
Diluted earnings per share	\$ 1.86	\$ 4.72

The calculation of earnings per share is based on whole dollars and not on rounded millions. As a result, the above amounts may not be recalculated to the per share amount disclosed above.

As described in Note 8, the convertible notes were settled with cash following their maturity on July 1, 2025. The conversion rate of the convertible notes was 65.1337 shares per US\$1,000 principal amount of convertible notes and is no longer a consideration in computing the dilutive earnings per share, except as part of the year-to-date calculation for the period to July 1, 2025.

Excluded from the 2025 calculation of diluted earnings per share were 7,270,000 (2024 – 6,811,000) outstanding options where the options' exercise prices were greater than the average market price of the shares for the year. Outstanding options that had exercise prices lower than the average market price of the shares for the year were included in the calculation of diluted earnings per share; using the treasury stock method, this resulted in less than one million in potential dilutive securities.

15. COMMITMENTS

Capital Commitments and Leases

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation. U.S. dollar amounts are converted using the December 31, 2025 closing rate of CDN\$1.37. Minimum future commitments under these contractual arrangements are shown below.

Air Canada is acquiring eight Airbus A350 aircraft. The purchase agreement also contains purchase rights for 8 additional Airbus A350 aircraft. Deliveries are scheduled to begin in the second half of 2030. Capital commitments also include the acquisition of 14 Boeing 787-10 aircraft 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. Capital commitments also include the purchase and deliveries for 24 Airbus A220 aircraft planned to continue into 2026 and 2027.

Also included below are capital commitments relating to the acquisition of 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in 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. The amounts related to the periodic lease payments on the 15 leases are included for the periods noted. Lease payments related to five Boeing 737 MAX 8 aircraft expected to be delivered in 2026 are also included.

(Canadian dollars in millions)	2026	2027	2028	2029	2030	Thereafter	Total
Capital commitments	\$ 2,549	\$ 2,491	\$ 1,569	\$ 1,358	\$ 1,278	\$ 3,399	12,644

In 2022, Air Canada announced it had entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. Due to the developing design and specifications of the aircraft, the final cost is not yet determinable and not included in the table above, however the agreement provides for a price cap. The regional aircraft would not be expected to enter service before 2029.

Air Canada leases and subleases certain aircraft and spare engines to its regional carrier, Jazz, which are charged back to Air Canada through its capacity purchase agreement with Jazz. These are reported net on the consolidated statement of operations. The leases and subleases relate to 15 Mitsubishi CRJ-200 aircraft, 20 Mitsubishi CRJ-900 aircraft, 25 Embraer 175 aircraft, and 13 spare engines. The lease and sublease revenue and expense related to these aircraft and engines amount to \$114 million in 2025 (2024 – \$116 million).

Related financing arrangements

In October 2024, Air Canada received a loan commitment from Export Development Canada of up to US\$975 million to finance a portion of the purchase price of up to 27 Airbus A220-300 aircraft expected to be delivered no later than October 2027. As described in Note 8, in September 2025, Air Canada drew down \$231 million under this facility for 5 A220 aircraft which had been previously delivered.

Other Contractual Commitments

The future minimum non-cancellable commitment for the next 12 months under commercial agreements with regional carriers is approximately \$1,275 million which includes pass-through costs to sustain the minimum flying commitment.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Financial Instruments

(Canadian dollars in millions)	Carrying Amounts					December 31, 2024
	December 31, 2025					
	Financial instruments classification					
	Fair value through profit and loss	Fair value through OCI	Assets at amortized cost	Liabilities at amortized cost	Total	
Financial Assets						
Cash and cash equivalents	\$ 2,795	\$ -	\$ -	\$ -	\$ 2,795	\$ 2,518
Short-term investments	2,730	-	-	-	2,730	4,464
Accounts receivable	-	-	1,292	-	1,292	1,089
Investments, deposits and other assets						
Long-term investments	640	-	-	-	640	770
Equity investment in Chorus	-	48	-	-	48	49
Restricted cash	117	-	-	-	117	104
Aircraft related and other deposits	-	-	51	-	51	59
Other investments	-	27	-	-	27	38
Derivative instruments						
Foreign exchange derivatives	2	-	-	-	2	157
	\$ 6,284	75	1,343	-	7,702	\$ 9,248
Financial Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 4,116	\$ 4,116	\$ 3,381
Foreign exchange derivatives	245	-	-	-	245	135
Fuel derivatives	4	-	-	-	4	-
Embedded derivative on convertible notes	-	-	-	-	-	45
Current portion of long-term debt and lease liabilities	-	-	-	2,967	2,967	1,755
Long-term debt and lease liabilities	-	-	-	8,609	8,609	10,915
	\$ 249	\$ -	\$ -	\$ 15,692	\$ 15,941	\$ 16,231

Summary of Gain on Financial Instruments Recorded at Fair Value

(Canadian dollars in millions)		2025	2024
Embedded derivative on convertible notes	Note 8	\$ 45	\$ 11
Short-term and long-term investments		37	17
Gain on financial instruments recorded at fair value		\$ 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.

Liquidity risk

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations. 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, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

At December 31, 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 include \$333 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators (\$346 million at December 31, 2024).

Cash and cash equivalents include \$177 million pertaining to investments with original maturities of three months or less at December 31, 2025 (\$115 million as at December 31, 2024).

A maturity analysis of Air Canada's principal and interest repayment requirements on long-term debt and lease liabilities is set out in Note 8, and fixed operating commitments and capital commitments are set out in Note 15.

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk can be further divided into the following sub-classifications related to Air Canada: fuel price risk, foreign exchange risk, interest rate risk, and share-based compensation risk.

Fuel Price Risk

Fuel price risk is the risk that future cash flows will fluctuate because of changes in jet fuel prices. To manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, 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 fair value of \$4 million in favour of the counterparties were outstanding, covering a portion of 2026 fuel exposure. There were no outstanding fuel derivatives as at December 31, 2024.

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).

Share-based Compensation Risk

Air Canada issues RSUs and PSUs to certain of its employees, as described in Note 13, which entitles the employees to receive a payment in the form of one share, cash in the amount equal to market value of one share, or a combination thereof, at the discretion of the Board of Directors.

There was no share forward contract activity in 2025 or contracts outstanding as at December 31, 2025 nor as at December 31, 2024.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2025, Air Canada's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, long-term investments and derivative instruments. Cash and cash equivalents and short and long-term investments are in place with major financial institutions, various levels of government in Canada, and major corporations. Accounts receivable are generally the result of sales of passenger tickets to individuals, largely through the use of major credit cards, through geographically dispersed travel agents, corporate outlets, or other airlines. Similarly, accounts receivable related to cargo revenues relate to accounts from a large number of geographically dispersed customers. Accounts receivable related to agreements for the issuance of Aeroplan Points are mainly with major financial institutions and any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. Expected credit loss is nominal in the current and prior year. Credit rating guidelines are used in determining derivative counterparties. In order to manage its exposure to credit risk and assess credit quality, Air Canada reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by Air Canada as at December 31, 2025. The sensitivity analysis is based on certain movements in the relevant risk factor. These assumptions may not be representative of actual movements in these risks and may not be relied upon. Given potential volatility in the financial and commodity markets, the actual movements and related percentage changes may differ significantly from those outlined below. Changes in income generally cannot be extrapolated because the relationship of the change in assumption to the change in income may not be linear. For purposes of presentation, each risk is contemplated independent of other risks; however, in reality, changes in any one factor may result in changes in one or more several other factors, which may magnify or counteract the sensitivities.

The sensitivity analysis related to foreign exchange derivative contracts is based on the estimated fair value change applicable to the derivative as at December 31, 2025 considering a 5% change in the U.S. dollar versus the Canadian dollar while holding all other assumptions constant.

(Canadian dollars in millions)	Interest rate risk		Foreign exchange rate risk ⁽¹⁾		Other price risk	
	Income		Income		Income	
	1% increase	1% decrease	5% increase	5% decrease	10% increase	10% decrease
Cash and cash equivalents	\$ 28	\$ (28)	\$ (4)	\$ 4	\$ -	\$ -
Short-term investments	\$ 27	\$ (27)	\$ (23)	\$ 23	\$ -	\$ -
Long-term investments	\$ 6	\$ (6)	\$ (3)	\$ 3	\$ -	\$ -
Aircraft related deposits	\$ -	\$ -	\$ (2)	\$ 2	\$ -	\$ -
Long-term debt and lease liabilities	\$ (20)	\$ 20	\$ 386	\$ (386)	\$ -	\$ -
Foreign exchange derivative	\$ -	\$ -	\$ (12)	\$ 12	\$ -	\$ -

(1) Increase (decrease) in foreign exchange relates to a strengthening (weakening) of the Canadian dollar versus the U.S. dollar. The impact on long-term debt and lease liabilities includes \$5 million related to the Canadian dollar versus the Japanese yen. The impact of changes in other currencies is not significant to Air Canada's financial instruments.

For Air Canada's equity investment in Chorus, a 10% increase (decrease) to the Chorus share price would increase (decrease) Other comprehensive income by \$5 million.

Covenants in Credit Card Agreements

Air Canada's principal credit card processing agreements for credit card processing services contain triggering events upon which Air Canada is required to provide the applicable credit card processor with cash deposits. The obligations to provide cash deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for Air Canada and the unrestricted cash and short-term investments of Air Canada. In 2025, Air Canada made no cash deposits under these agreements (nil in 2024).

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short-term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments. Cash equivalents and short and long-term investments are classified as held for trading and therefore are recorded at fair value.

The carrying amounts of derivatives are equal to fair value, which is based on the amount at which they could be settled based on estimated current market rates as at December 31, 2025.

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to Air Canada based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt is \$9,214 million compared to its carrying value of \$9,164 million.

Following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Recurring measurements (Canadian dollars in millions)	December 31, 2025	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets				
Held-for-trading securities				
Cash equivalents	\$ 177	\$ -	\$ 177	\$ -
Short-term investments	2,730	-	2,730	-
Long-term investments	640	-	640	-
Equity investment in Chorus	48	48	-	-
Derivative instruments				
Foreign exchange derivatives	2	-	2	-
Total	\$ 3,597	\$ 48	\$ 3,549	\$ -
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	\$ 245	-	245	\$ -
Fuel derivatives	4	-	4	-
Total	\$ 249	\$ -	\$ 249	\$ -

Financial assets held by financial institutions in the form of cash and restricted cash have been excluded from the fair value measurement classification table above as they are not valued using a valuation technique.

Air Canada's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers within the fair value hierarchy during 2025.

Offsetting of Financial Instruments in the Consolidated Statement of Financial Position

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where Air Canada has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, Air Canada enters into various master netting arrangements or other similar arrangements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be set-off in certain circumstances, such as the termination of the contracts or in the event of bankruptcy or default of either party to the agreement.

Air Canada participates in industry clearing house arrangements whereby certain accounts receivable balances related to passenger, cargo and other billings are settled on a net basis with the counterparty through the clearing house. These billings are mainly the result of interline agreements with other airlines, which are commercial agreements that enable the sale and settlement of travel and related services between the carriers. Billed and work in process interline receivables are presented on a gross basis and amount to \$85 million as at December 31, 2025 (\$107 million as at December 31, 2024). These balances will be settled at a net value at a later date; however, such net settlement amount is unknown until the settlement date.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset, as at December 31, 2025 and 2024, and shows in the Net column what the net impact would be on the consolidated statement of financial position if all set-off rights were exercised.

Financial assets (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	
December 31, 2025					
Derivative assets	\$ 8	\$ (6)	\$ 2	\$ -	\$ 2
	\$ 8	\$ (6)	\$ 2	\$ -	\$ 2
December 31, 2024					
Derivative assets	\$ 229	\$ (72)	\$ 157	\$ -	\$ 157
	\$ 229	\$ (72)	\$ 157	\$ -	\$ 157

Financial liabilities (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	
December 31, 2025					
Derivative liabilities	\$ 348	\$ (99)	\$ 249	\$ -	\$ 249
	\$ 348	\$ (99)	\$ 249	\$ -	\$ 249
December 31, 2024					
Derivative liabilities	\$ 239	\$ (104)	\$ 135	\$ -	\$ 135
	\$ 239	\$ (104)	\$ 135	\$ -	\$ 135

17. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Contingencies and Litigation Provisions

Various lawsuits and claims are pending by and against Air Canada and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of Air Canada.

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 amongst 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.

18. CAPITAL DISCLOSURES

Air Canada views capital as the sum of Long-term debt and lease liabilities, the embedded derivative on convertible notes, and the book value of Shareholders' equity. Air Canada also monitors its net debt which is calculated as the sum of Long-term debt and lease liabilities less cash and cash equivalents, and short-term and long-term investments.

Air Canada's main objectives when managing capital are:

- To ensure Air Canada has access to capital to fund contractual obligations as they become due and to ensure adequate cash levels to withstand deteriorating economic conditions;
- To ensure capital allocation decisions generate sufficient returns and to assess the efficiency with which the Air Canada allocates its capital to generate returns;
- To structure repayment obligations in line with the expected life of Air Canada's principal revenue generating assets;
- To maintain an appropriate balance between debt supplied capital versus investor supplied capital; and
- To monitor Air Canada's credit ratings to facilitate access to capital markets at competitive interest rates.

In order to maintain or adjust the capital structure, Air Canada may adjust the type or amount of capital utilized, including purchase versus debt financing versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling aircraft options, redeeming or issuing debt securities, issuing equity securities, and repurchasing outstanding shares, all subject to market conditions and the terms of the underlying agreements (or any consents required) or other legal restrictions.

The total capital and net debt as at December 31 are calculated as follows:

(Canadian dollars in millions)	December 31, 2025	December 31, 2024
Long-term debt and lease liabilities	\$ 8,609	\$ 10,915
Current portion of long-term debt and lease liabilities	2,967	1,755
Total long-term debt and lease liabilities	11,576	12,670
Embedded derivative on convertible notes	-	45
Shareholders' equity	2,591	2,388
Total Capital	\$ 14,167	\$ 15,103
Total long-term debt and lease liabilities	\$ 11,576	\$ 12,670
Less Cash and cash equivalents, and short-term and long-term investments	(6,165)	(7,752)
Net debt	\$ 5,411	\$ 4,918

19. REVENUE

Disaggregation of revenue

Air Canada disaggregates revenue from contracts with customers according to the nature of the air transportation services. The nature of services is presented as passenger, cargo and other revenue on its consolidated statement of operations. Air Canada further disaggregates passenger and cargo air transportation service revenue according to geographic market segments.

A reconciliation of the total amounts reported by geographic region for Passenger revenues and Cargo revenues on the consolidated statement of operations is as follows:

Passenger Revenues (Canadian dollars in millions)	2025	2024
Canada	\$ 5,273	\$ 5,255
U.S. Transborder	3,831	4,275
Atlantic	5,979	5,754
Pacific	2,703	2,792
Other	1,818	1,684
	\$ 19,604	\$ 19,760

Cargo Revenues (Canadian dollars in millions)	2025	2024
Canada	\$ 126	\$ 106
U.S. Transborder	53	58
Atlantic	366	375
Pacific	322	311
Other	166	141
	\$ 1,033	\$ 991

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia. Other passenger and cargo revenues refer to flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

Other operating revenues are principally derived from customers located in Canada and consist primarily of revenues from the sale of the ground portion of vacation packages, redemption of Aeroplan Points for non-air goods and services, buy on board and related passenger ancillary services and charges, and other airline-related services.

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(Canadian dollars in millions)	2025	2024
Receivables, which are included in Accounts receivable	\$ 942	\$ 770
Contract costs which are included in Prepaid expenses and other current assets	131	124
Contract liabilities – Advance ticket sales	4,814	4,387
Contract liabilities – Aeroplan deferred revenue (current and long-term)	4,008	3,785
Contract liabilities – Other deferred revenue (current and long-term)	611	755

Receivables include passenger, cargo and other receivables from contracts with customers. Air Canada sells passenger tickets and related ancillary services via cash, credit card or other card-based forms of payment with payment generally collected in advance of the performance of related transportation services. Passenger ticket and

ancillary receivables are amounts due from other airlines for interline travel, travel agency payment processing intermediaries or credit card processors associated with sales for future travel and are included in Accounts receivable on the consolidated statement of financial position. Proceeds from Aeroplan Points issued pursuant to Aeroplan program partner arrangements are based on member accumulations and which billings are generally settled monthly. Cargo and other accounts receivable relate to amounts owing from customers, including from freight forwarders and interline partners for cargo and other services provided.

Contract costs include payment card fees, commissions and global distribution system charges on passenger tickets. These costs are capitalized at time of sale and expensed at the time of passenger revenue recognition.

Airline passenger and cargo sales transactions rely on multiple information technology systems and controls to process, record, and recognize a high volume of low value transactions, through a combination of internal information technology systems and outsourced service providers, including industry clearing houses, global distribution systems, and other partner airlines. Passenger sales and the ground portion of vacation packages are deferred and included in Current liabilities. A portion of the passenger sale related to the equivalent ticket value of any Aeroplan Points issued is separated and deferred in Aeroplan deferred revenue. The Advance ticket sales liability is recognized in revenue when the related flight occurs or over the period of the vacation. Depending on the fare class, passengers may exchange their tickets up to the time of the flight or obtain a refund, generally in exchange for the payment of a fee. Air Canada performs regular evaluations on the advance ticket sales liability.

The practical expedient in IFRS 15 allows entities not to disclose the amount of the remaining transaction prices and its expected timing of recognition for performance obligations if the contract has an original expected duration of one year or less. Air Canada elects to use this practical expedient for the passenger travel performance obligation as passenger tickets expire within a year if unused.

Air Canada offers and has issued and outstanding non-expiring travel credits. Customers have the ability to use the travel credits within the next 12 months and Air Canada does not have an unconditional right to defer settlement beyond the next 12 months. As such, the entire liability amount as at December 31, 2025 of \$251 million (2024 - \$263 million) related to these credits has been recorded in current liabilities even though some could be used after the next 12 months.

The following table presents financial information related to the changes in Aeroplan deferred revenue:

(Canadian dollars in millions)	2025	2024
Aeroplan deferred revenue, beginning of year	\$ 3,785	\$ 3,562
Proceeds from Aeroplan Points issued pursuant to program partner arrangements	1,980	1,845
Equivalent ticket value of Aeroplan Points issued	359	325
Aeroplan Points redeemed	(2,116)	(1,947)
Aeroplan deferred revenue, end of year	\$ 4,008	\$ 3,785

Proceeds from Points issued pursuant to Aeroplan program partner arrangements and the equivalent ticket value of Points issued through travel are deferred until the Points are redeemed and the reward is provided to the member. Air Canada expects the majority of the Points outstanding will be redeemed within three years.

20. OTHER OPERATING EXPENSES

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

(Canadian dollars in millions)	2025	2024
Terminal handling	\$ 578	\$ 546
Crew cycle	357	300
Building rent and maintenance	327	323
Miscellaneous fees and services	296	254
Remaining other expenses	1,043	1,035
Total other operating expenses	\$ 2,601	\$ 2,458

21. RELATED PARTY TRANSACTIONS

Air Canada sponsors and provides management services to a number of post-retirement plans which are related parties. Refer to Note 9 for additional information on these plans, including contributions made by Air Canada to these plans.

Compensation of Key Management

Key management includes Air Canada's Board of Directors and its Executive Officers (President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Operations Officer, Executive Vice President and Chief Commercial Officer and President, Cargo, Executive Vice President and Chief Innovation Officer and President of Aeroplan, , Executive Vice President and Chief Human Resources Officer and Public Affairs, and Executive Vice President, Chief Legal Officer and Corporate Secretary). Amounts reported are based upon the expense as reported in the consolidated financial statements, which in the case of Pension and post-employment benefits, includes actuarial gains or losses, as applicable. Share-based compensation is further described in Note 13 and is impacted by Air Canada's share price. Compensation to key management is summarized as follows:

(Canadian dollars in millions)	2025	2024
Salaries and other benefits	\$ 12	\$ 11
Pension and post-employment benefits	1	3
Share-based compensation	17	27
	\$ 30	\$ 41