



# Third Quarter 2024

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

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A STAR ALLIANCE MEMBER 

**TABLE OF CONTENTS**

<b>1.</b>	<b>SELECTED FINANCIAL METRICS AND STATISTICS</b> .....	<b>1</b>
<b>2.</b>	<b>INTRODUCTION AND KEY ASSUMPTIONS</b> .....	<b>3</b>
<b>3.</b>	<b>ABOUT AIR CANADA</b> .....	<b>5</b>
<b>4.</b>	<b>OVERVIEW</b> .....	<b>6</b>
<b>5.</b>	<b>RESULTS OF OPERATIONS</b> .....	<b>7</b>
<b>6.</b>	<b>FLEET</b> .....	<b>14</b>
<b>7.</b>	<b>FINANCIAL AND CAPITAL MANAGEMENT</b> .....	<b>16</b>
<b>7.1</b>	<b>LIQUIDITY</b> .....	<b>16</b>
<b>7.2</b>	<b>NET DEBT</b> .....	<b>17</b>
<b>7.3</b>	<b>WORKING CAPITAL</b> .....	<b>18</b>
<b>7.4</b>	<b>CASH FLOW MOVEMENTS</b> .....	<b>19</b>
<b>7.5</b>	<b>CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS</b> .....	<b>21</b>
<b>7.6</b>	<b>PENSION FUNDING OBLIGATIONS</b> .....	<b>22</b>
<b>7.7</b>	<b>CONTRACTUAL OBLIGATIONS</b> .....	<b>23</b>
<b>7.8</b>	<b>SHARE INFORMATION</b> .....	<b>24</b>
<b>8.</b>	<b>QUARTERLY FINANCIAL DATA</b> .....	<b>25</b>
<b>9.</b>	<b>FINANCIAL INSTRUMENTS AND RISK MANAGEMENT</b> .....	<b>26</b>
<b>10.</b>	<b>ACCOUNTING POLICIES</b> .....	<b>26</b>
<b>11.</b>	<b>CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS</b> .....	<b>28</b>
<b>12.</b>	<b>OFF-BALANCE SHEET ARRANGEMENTS</b> .....	<b>28</b>
<b>13.</b>	<b>RELATED PARTY TRANSACTIONS</b> .....	<b>28</b>
<b>14.</b>	<b>RISK FACTORS</b> .....	<b>28</b>
<b>15.</b>	<b>CONTROLS AND PROCEDURES</b> .....	<b>28</b>
<b>16.</b>	<b>NON-GAAP FINANCIAL MEASURES</b> .....	<b>29</b>
<b>17.</b>	<b>GLOSSARY</b> .....	<b>34</b>

## 1. SELECTED FINANCIAL METRICS AND STATISTICS

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

(Canadian dollars in millions, except per share data or where indicated)	Third Quarter			First Nine Months		
<b>Financial Performance Metrics</b>	<b>2024</b>	<b>2023</b>	<b>\$ Change</b>	<b>2024</b>	<b>2023</b>	<b>\$ Change</b>
Operating revenues	6,106	6,344	(238)	16,851	16,658	193
Operating income	1,040	1,415	(375)	1,517	2,200	(683)
Operating margin <sup>(1)</sup> (%)	17.0	22.3	(5.3) pp <sup>(8)</sup>	9.0	13.2	(4.2) pp
Adjusted EBITDA <sup>(2)</sup>	1,523	1,830	(307)	2,890	3,461	(571)
Adjusted EBITDA margin <sup>(2)</sup> (%)	24.9	28.8	(3.9) pp	17.2	20.8	(3.6) pp
Income before income taxes	897	1,317	(420)	1,236	2,090	(854)
Net income	2,035	1,250	785	2,364	2,092	272
Adjusted pre-tax income <sup>(2)</sup>	985	1,278	(293)	1,262	1,740	(478)
Adjusted net income <sup>(2)</sup>	969	1,281	(312)	1,242	1,757	(515)
Total liquidity <sup>(3)</sup>	10,261	9,949	312	10,261	9,949	312
Net cash flow from operating activities	737	408	329	3,253	3,335	(82)
Free cash flow <sup>(2)</sup>	282	135	147	1,789	2,087	(298)
Net debt <sup>(2)</sup>	3,426	5,438	(2,012)	3,426	5,438	(2,012)
Diluted earnings per share	5.38	3.08	2.30	6.25	5.55	0.70
Adjusted earnings per share – diluted <sup>(2)</sup>	2.57	3.41	(0.84)	3.30	4.67	(1.37)
<b>Operating Statistics <sup>(4)</sup></b>	<b>2024</b>	<b>2023</b>	<b>% Change</b>	<b>2024</b>	<b>2023</b>	<b>% Change</b>
Revenue passenger miles (RPMs) (millions)	25,101	25,202	(0.4)	68,070	65,397	4.1
Available seat miles (ASMs) (millions)	28,892	28,060	3.0	79,432	74,573	6.5
Passenger load factor %	86.9%	89.8%	(2.9) pp	85.7%	87.7%	(2.0) pp
Passenger revenue per RPM (Yield) (cents)	22.3	23.3	(4.0)	22.1	22.7	(3.0)
Passenger revenue per ASM (PRASM) (cents)	19.4	20.9	(7.2)	18.9	19.9	(5.0)
Operating revenue per ASM (TRASM) (cents)	21.1	22.6	(6.5)	21.2	22.3	(5.0)
Operating expense per ASM (CASM) (cents)	17.5	17.6	(0.2)	19.3	19.4	(0.4)
Adjusted CASM (cents) <sup>(2)</sup>	12.2	12.2	(0.4)	13.4	13.2	1.2
Average number of full-time-equivalent (FTE) employees (thousands) <sup>(5)</sup>	37.2	35.9	3.7	37.1	35.4	4.7
Aircraft in operating fleet at period-end	353	354	(0.3)	353	354	(0.3)
Seats dispatched (thousands)	15,258	14,707	3.7	42,950	40,390	6.3
Aircraft frequencies (thousands)	104.5	101.0	3.5	293.4	279.7	4.9
Average stage length (miles) <sup>(6)</sup>	1,894	1,908	(0.7)	1,849	1,846	0.2
Fuel cost per litre (cents)	98.2	101.9	(3.7)	102.5	109.6	(6.5)
Fuel litres (thousands)	1,399,170	1,342,967	4.2	3,857,355	3,572,766	8.0
Revenue passengers carried (thousands) <sup>(7)</sup>	12,618	12,635	(0.1)	34,957	33,891	3.1

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

(2) Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.

(3) Total liquidity refers to the sum of cash, cash equivalents, short- and long-term investments, and the amounts available under Air Canada's credit facilities. Total liquidity, as at September 30, 2024, of \$10,261 million consisted of \$8,942 million in cash, cash equivalents, short- and long-term

*investments and \$1,319 million available under undrawn credit facilities. As at September 30, 2023, total liquidity of \$9,949 million consisted of \$8,934 million in cash, cash equivalents, short- and long-term investments and \$1,015 million available under undrawn credit facilities. Total liquidity also includes funds (\$243 million as at September 30, 2024, and \$240 million as at September 30, 2023) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.*

- (4) Except for the reference to average number of FTE employees, operating statistics in this table include third-party carriers operating under capacity purchase agreements with Air Canada.*
- (5) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third-party carriers operating under capacity purchase agreements with Air Canada.*
- (6) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.*
- (7) Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg), which is consistent with the IATA definition of revenue passengers carried.*
- (8) "pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.*

## 2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), Air Canada refers, as the context may require, to Air Canada and/or one or more of Air Canada's subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada Rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge). This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the third quarter of 2024. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the third quarter of 2024 dated November 1, 2024, as well as Air Canada's 2023 annual audited consolidated financial statements and notes and Air Canada's 2023 MD&A, each dated February 16, 2024. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IFRS Accounting Standards), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of October 31, 2024.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk Factors" of Air Canada's 2023 MD&A, dated February 16, 2024, and section 14 "Risk Factors" of this MD&A. Air Canada issued a news release dated November 1, 2024, reporting on its results for the third quarter of 2024. This news release is available on Air Canada's website at [aircanada.com](http://aircanada.com) and on the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca). For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

### Caution Regarding Forward-Looking Information

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

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

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



identified in Air Canada's public disclosure file available at [www.sedarplus.ca](http://www.sedarplus.ca) and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2023 MD&A, dated February 16, 2024, and section 14 "Risk Factors" of this MD&A.

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

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

### **Key Assumptions**

Air Canada made assumptions in preparing and making forward-looking statements including moderate Canadian GDP growth for 2024. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.36 per U.S. dollar for the full year 2024 and that the price of jet fuel will average C\$1.00 per litre for the full year 2024.

### **Intellectual Property**

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

### **Incorporation of Other Information**

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

### 3. ABOUT AIR CANADA

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

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

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

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

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

Air Canada Vacations is a leading Canadian tour operator, developing, marketing and distributing vacation travel packages in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific, Australia and Asia) and the inbound leisure travel market to destinations within Canada, and offering cruise packages in North America, Europe and the Caribbean. Air Canada Rouge is Air Canada's leisure carrier.

## 4. OVERVIEW

In the third quarter of 2024, Air Canada's operating revenues declined 4% compared to the same quarter in 2023, while operated capacity increased 3% from the period. The capacity growth was lower than the expected capacity increase of 4%-4.5% communicated in Air Canada's news release dated August 7, 2024. This was primarily due to fleet constraints and to adjustments made to the operating schedule. In this quarter, revenue performance was impacted by year-over-year declines in yields and passenger load factor in all markets.

In the third quarter of 2024, operating expenses increased 3%. The year-over-year growth was limited by declining jet fuel prices over the same period in 2023 and contract-related cost adjustments recorded in the quarter. Refer to section 5 "Results of operations" for additional information on factors impacting the year-over-year variances.

### Third Quarter 2024 Financial Summary

The following is an overview of Air Canada's results of operations and financial position for the third quarter 2024 compared to the third quarter 2023.

- Operating revenues of \$6,106 million decreased \$238 million or 4%, resulting from lower passenger revenues.
- Operating expenses of \$5,066 million increased \$137 million or 3%. The increase was largely due to higher costs in most line items due to capacity growth and was partially offset by certain contract-related adjustments recorded this quarter.
- Operating income of \$1,040 million, with an operating margin of 17.0%, declined \$375 million.
- Adjusted EBITDA of \$1,523 million, with an adjusted EBITDA margin of 24.9%, declined \$307 million.
- Net income of \$2,035 million, which included a favourable tax asset recognition of \$1,154 million, and diluted earnings per share of \$5.38 compared to \$1,250 million and \$3.08 per diluted share, respectively.
- Adjusted net income of \$969 million and adjusted earnings per diluted share of \$2.57, compared to \$1,281 million and \$3.41 per diluted share, respectively.
- Adjusted CASM of 12.15 cents decreased 0.4%, primarily due to the impact of contract-related adjustments recorded in the third quarter of 2024.
- Net cash flows from operating activities of \$737 million increased \$329 million.
- Free cash flow of \$282 million increased \$147 million.
- Net debt-to-adjusted EBITDA ratio was 1.0 at September 30, 2024, compared to 1.1 at December 31, 2023.



## 5. RESULTS OF OPERATIONS

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

(Canadian dollars in millions, except where indicated)	Third Quarter				First Nine Months			
	2024	2023	\$ Change	% Change <sup>(1)</sup>	2024	2023	\$ Change	% Change <sup>(1)</sup>
<b>Operating revenues</b>								
Passenger	\$ 5,601	\$ 5,861	(260)	(4)	\$ 15,034	\$ 14,850	184	1
Cargo	253	215	38	18	698	680	18	3
Other	252	268	(16)	(6)	1,119	1,128	(9)	(1)
<b>Total operating revenues</b>	<b>6,106</b>	<b>6,344</b>	<b>(238)</b>	<b>(4)</b>	<b>16,851</b>	<b>16,658</b>	<b>193</b>	<b>1</b>
<b>Operating expenses</b>								
Aircraft fuel	1,377	1,365	12	1	3,964	3,927	37	1
Wages, salaries and benefits	1,021	995	26	3	3,200	2,880	320	11
Depreciation and amortization	449	415	34	8	1,339	1,261	78	6
Airport and navigation fees	410	392	18	5	1,130	1,068	62	6
Aircraft maintenance	226	236	(10)	(4)	876	772	104	13
Sales and distribution costs	290	307	(17)	(6)	825	844	(19)	(2)
Capacity purchase fees	219	218	1	0	644	635	9	1
Ground package costs	102	99	3	3	574	543	31	6
Communications and information technology	156	141	15	11	487	415	72	17
Catering and onboard services	174	181	(7)	(4)	483	467	16	3
Other	642	580	62	11	1,812	1,646	166	10
<b>Total operating expenses</b>	<b>5,066</b>	<b>4,929</b>	<b>137</b>	<b>3</b>	<b>15,334</b>	<b>14,458</b>	<b>876</b>	<b>6</b>
<b>Operating income</b>	<b>1,040</b>	<b>1,415</b>	<b>(375)</b>		<b>1,517</b>	<b>2,200</b>	<b>(683)</b>	
<b>Non-operating income (expense)</b>								
Foreign exchange gain (loss)	(85)	(61)	(24)		(28)	317	(345)	
Interest income	114	118	(4)		336	307	29	
Interest expense	(180)	(236)	56		(579)	(722)	143	
Interest capitalized	9	(2)	11		24	9	15	
Financial instruments recorded at fair value	26	101	(75)		66	24	42	
Loss on debt settlements	-	(7)	7		(46)	(9)	(37)	
Other	(27)	(11)	(16)		(54)	(36)	(18)	
<b>Total non-operating expense</b>	<b>(143)</b>	<b>(98)</b>	<b>(45)</b>		<b>(281)</b>	<b>(110)</b>	<b>(171)</b>	
<b>Income before income taxes</b>	<b>897</b>	<b>1,317</b>	<b>(420)</b>		<b>1,236</b>	<b>2,090</b>	<b>(854)</b>	
Income tax recovery (expense)	1,138	(67)	1,205		1,128	2	1,126	
<b>Net income</b>	<b>\$ 2,035</b>	<b>\$ 1,250</b>	<b>\$ 785</b>		<b>\$ 2,364</b>	<b>\$ 2,092</b>	<b>\$ 272</b>	
<b>Basic earnings per share</b>	<b>\$ 5.68</b>	<b>\$ 3.49</b>	<b>\$ 2.19</b>		<b>\$ 6.60</b>	<b>\$ 5.84</b>	<b>\$ 0.76</b>	
<b>Diluted earnings per share</b>	<b>\$ 5.38</b>	<b>\$ 3.08</b>	<b>\$ 2.30</b>		<b>\$ 6.25</b>	<b>\$ 5.55</b>	<b>\$ 0.70</b>	
<b>Adjusted EBITDA <sup>(2)</sup></b>	<b>\$ 1,523</b>	<b>\$ 1,830</b>	<b>\$ (307)</b>		<b>\$ 2,890</b>	<b>\$ 3,461</b>	<b>\$ (571)</b>	
<b>Adjusted pre-tax income <sup>(2)</sup></b>	<b>\$ 985</b>	<b>\$ 1,278</b>	<b>\$ (293)</b>		<b>\$ 1,262</b>	<b>\$ 1,740</b>	<b>\$ (478)</b>	
<b>Adjusted net income <sup>(2)</sup></b>	<b>\$ 969</b>	<b>\$ 1,281</b>	<b>\$ (312)</b>		<b>\$ 1,242</b>	<b>\$ 1,757</b>	<b>\$ (515)</b>	
<b>Adjusted earnings per share <sup>(2)</sup></b>	<b>\$ 2.57</b>	<b>\$ 3.41</b>	<b>\$ (0.84)</b>		<b>\$ 3.30</b>	<b>\$ 4.67</b>	<b>\$ (1.37)</b>	

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

(2) Adjusted EBITDA, adjusted pre-tax income (loss), adjusted net income (loss), and adjusted earnings (loss) per share are non-GAAP financial measures or non-GAAP financial ratios. Refer to section 16 "Non-GAAP" Financial Measures" of this MD&A for additional information.

## System Passenger Revenues

In the third quarter of 2024, passenger revenues of \$5,601 million declined \$260 million or 4% from the third quarter of 2023. The year-over-year decrease was primarily due to a 4% decline in system yield and a 3 percentage-point reduction in system passenger load factor, across all markets but most notably in international markets.

Demand for premium products remained strong in the third quarter of 2024. Revenues from premium cabins represented 28% of total revenues, an increase of 1 percentage point year over year.

Air Canada has continued to execute on its sixth freedom traffic strategy. In the third quarter of 2024, sixth freedom traffic grew 17% year over year.

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

In the first nine months of 2024, passenger revenues of \$15,034 million increased \$184 million or 1% fuelled by a near 7% ASM growth year over year. The growth was limited by a 2 percentage-point decline in system load factor and 3% lower yields, mainly in international markets.

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

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2024	2023	\$ Change	% Change <sup>(1)</sup>	2024	2023	\$ Change	% Change <sup>(1)</sup>
Canada	\$ 1,493	\$ 1,515	\$ (22)	(1.4)	\$ 3,950	\$ 3,861	\$ 89	2.3
U.S. transborder	1,097	1,127	(30)	(2.6)	3,216	3,130	86	2.8
Atlantic	1,953	2,201	(248)	(11.3)	4,491	4,790	(299)	(6.3)
Pacific	774	704	70	9.8	2,146	1,769	377	21.3
Other	284	314	(30)	(9.4)	1,231	1,300	(69)	(5.3)
<b>System</b>	<b>\$ 5,601</b>	<b>\$ 5,861</b>	<b>\$ (260)</b>	<b>(4.4)</b>	<b>\$ 15,034</b>	<b>\$ 14,850</b>	<b>\$ 184</b>	<b>1.2</b>

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

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

	Third Quarter 2024 versus Third Quarter 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	(1.4)	4.7	1.3	(2.8)	(2.7)	(5.8)
U.S. transborder	(2.6)	(0.3)	(2.2)	(1.6)	(0.4)	(2.3)
Atlantic	(11.3)	(3.6)	(7.4)	(3.7)	(4.2)	(8.0)
Pacific	9.8	30.8	25.9	(3.4)	(12.8)	(16.0)
Other	(9.4)	(6.7)	(8.7)	(2.0)	(0.8)	(3.0)
<b>System</b>	<b>(4.4)</b>	<b>3.0</b>	<b>(0.4)</b>	<b>(2.9)</b>	<b>(4.0)</b>	<b>(7.2)</b>

	First Nine Months 2024 versus First Nine Months 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	2.3	2.9	1.2	(1.4)	1.1	(0.6)
U.S. transborder	2.8	4.4	2.3	(1.7)	0.4	(1.5)
Atlantic	(6.3)	2.1	(1.5)	(3.2)	(4.8)	(8.2)
Pacific	21.3	33.7	30.3	(2.3)	(7.0)	(9.3)
Other	(5.3)	(1.4)	(2.2)	(0.7)	(3.1)	(3.9)
<b>System</b>	<b>1.2</b>	<b>6.5</b>	<b>4.1</b>	<b>(2.0)</b>	<b>(3.0)</b>	<b>(5.0)</b>

### Domestic Passenger Revenues

In the third quarter of 2024, Domestic passenger revenues declined 1% year over year with lower load factors and yields year over year, despite the capacity growth of 5%. As described above, results in the quarter were impacted by the labour uncertainty in advance of reaching an agreement with ALPA.

In the first nine months of 2024, Domestic passenger revenues increased 2% resulting from capacity and yield growth. These results reflected good demand for air travel within a competitive marketplace.

### U.S. Transborder Passenger Revenues

In the third quarter of 2024, U.S. transborder revenues declined 3% year over year due to load factor declining nearly 2 percentage points. In the first nine months of 2024, U.S. transborder revenues grew 3% driven by capacity and yield increases year over year. The year-to-date capacity increase was driven by new, restored and increased U.S. transborder services, providing connection opportunities with Air Canada's international network and supported Air Canada's sixth freedom traffic strategy.

### Atlantic Passenger Revenues

In the third quarter and first nine months of 2024, Atlantic passenger revenues declined 11% and 6%, respectively. These declines were due to lower load factors and yields through the Atlantic network primarily reflecting increased industry capacity and competitive pressures in the market.

### Pacific Passenger Revenues

In the third quarter and first nine months of 2024, Pacific passenger revenues increased 10% and 21%, respectively. The increases were driven by increased capacity due to the restoration of services to Asia Pacific regions, most notably in Japan, Korea and Hong Kong, and the launch of the Vancouver-Singapore route. The growth was limited by lower yields and load factors in the region year over year.

### Other Passenger Revenues

In the third quarter and first nine months of 2024, Other passenger revenues declined 9% and 5%, respectively. The declines were driven by lower capacity into South America and lower yields in Central America and the Caribbean.

### **Cargo Revenues**

In the third quarter of 2024, Cargo revenues increased 18% from the third quarter of 2023. This was primarily due to higher yields and volumes of chargeable kilos of cargo in passenger aircraft in the Pacific market. To a lesser extent, higher freighter revenues in the Americas also contributed to the increase. This was partially offset by lower belly cargo revenues and freighter revenues in the Atlantic.

In the first nine months of 2024, Cargo revenues increased 3% year over year. This was due to higher volumes in the Pacific, aligned with capacity growth in this market, and higher freighter revenues in the Americas.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2024	2023	\$ Change	% Change <sup>(1)</sup>	2024	2023	\$ Change	% Change <sup>(1)</sup>
Canada	\$ 28	\$ 22	\$ 6	29.1	\$ 76	\$ 69	\$ 7	10.4
U.S. transborder	15	11	4	43.6	41	33	8	24.6
Atlantic	92	100	(8)	(8.0)	265	328	(63)	(19.0)
Pacific	86	54	32	59.0	219	157	62	39.6
Other	32	28	4	13.7	97	93	4	3.7
<b>System</b>	<b>\$ 253</b>	<b>\$ 215</b>	<b>\$ 38</b>	<b>18.1</b>	<b>\$ 698</b>	<b>\$ 680</b>	<b>\$ 18</b>	<b>2.8</b>

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

### **Other Revenues**

In the third quarter and first nine months of 2024, other revenues declined 6% and 1%, respectively, compared to the same periods in 2023. The performance in this quarter was driven by lower ground package revenues at Air Canada Vacations (ACV), lower buy on-board revenues and lower miscellaneous passenger fees year over year. In the first nine months of 2024, compared to the same period in 2023, higher ground package revenues at ACV were more than offset by lower buy on-board revenues and lower miscellaneous passenger fees.

### **Operating Expenses**

In the third quarter and first nine months of 2024, operating expenses increased 3% and 6%, respectively, from the same periods in 2023. This was the result of year-over-year increases in most line items reflecting the capacity growth. The increases were limited by certain contract-related adjustments that were recorded in the third quarter of 2024. The more notable components of the year-over-year change in operating expenses are described below.

### Aircraft Fuel

In each of the third quarter and first nine months of 2024, aircraft fuel expense increased 1%. The year-over-year decline in jet fuel prices was offset by an increase in litres of jet fuel used due to higher levels of flying. The variance also reflected jet fuel hedging losses of \$8 million in the third quarter of 2024 and of \$33 million in the first nine months of 2024, compared to a gain of \$68 million recorded in the third quarter and first nine months of 2023.

### Wages, Salaries and Benefits

Wages, salaries and benefits expense increased 3% in the third quarter of 2024 and 11% in the first nine months of 2024. These increases were due to the increased number of employees required to support the capacity growth and higher average salaries year over year. The increases were partially offset by adjustments made to accruals for wage-related initiatives.

### Aircraft Maintenance

Aircraft maintenance expense decreased 4% in the third quarter of 2024 and increased 13% in the first nine months of 2024. The performance in both periods was driven by a greater number of scheduled engine and airframe maintenance events, higher average prices for maintenance events and increased maintenance activity to support higher levels of flying. To a lesser extent, maintenance provisions increased in both periods reflecting a greater number of leased aircraft year over year. In the third quarter of 2024, Air Canada recorded a contract-related adjustment in aircraft maintenance, which offset the increases in the third quarter and in the first nine months of 2024.

### Communications and Information Technology

Communications and information technology expense increased 11% in the third quarter of 2024 and 17% in the first nine months of 2024. The increases were mainly due to higher usage of certain IT services, driven by ongoing digital transformation initiatives.

### Other operating expenses

In the third quarter and in the first nine months of 2024, other operating expenses increased 11% and 10%, respectively, primarily driven by increased flying activity year over year and a charge of \$34 million recorded in the third quarter of 2024 in other operating expenses reflecting the estimated costs related to contractual lease obligations.

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

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2024	2023	\$ Change	% Change <sup>(1)</sup>	2024	2023	\$ Change	% Change <sup>(1)</sup>
Terminal handling	\$ 147	\$ 137	\$ 10	7	\$ 411	\$ 370	\$ 41	11
Crew cycle	83	75	8	11	225	198	27	14
Building rent and maintenance	80	73	7	10	241	214	27	13
Miscellaneous fees and services	66	56	10	18	176	164	12	7
Remaining other expenses	266	239	27	11	759	700	59	8
<b>Total other expenses</b>	<b>\$ 642</b>	<b>\$ 580</b>	<b>\$ 62</b>	<b>11</b>	<b>\$ 1,812</b>	<b>\$ 1,646</b>	<b>\$ 166</b>	<b>10</b>

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

### CASM and Adjusted CASM

In the third quarter of 2024, CASM and adjusted CASM decreased 0.2% and 0.4%, respectively, from the third quarter of 2023. The decreases reflected the impact of certain contractual adjustments recorded in this quarter. For CASM, the impact of declining jet fuel prices year over year was offset by the charge related to a provision for contractual lease obligations as described in the other operating expenses subsection.

In the first nine months of 2024, CASM decreased 0.4% and adjusted CASM increased 1.2% from the same period in 2023. The CASM decline was primarily due to declining jet fuel prices and capacity growth year over year as well as the impact of certain contractual adjustments recorded in the third quarter of 2024. Taken together, these items offset the year-over-year increases in labour, maintenance and information technology expenses.

The adjusted CASM increase was driven by year-over-year increases in labour, maintenance and information technology expenses, partially offset by the capacity growth in the period and the impact of cost adjustments recorded in the third quarter of 2024.

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

(Cents per ASM)	Third Quarter				First Nine Months			
	2024	2023	¢ Change	% Change <sup>(1)</sup>	2024	2023	¢ Change	% Change <sup>(1)</sup>
<b>CASM</b>	¢ 17.53	¢ 17.57	¢ (0.04)	(0.2)	¢ 19.30	¢ 19.39	¢ (0.09)	(0.4)
<b>Remove:</b>								
Aircraft fuel expense, ground package costs, freighter costs and provision for contractual lease obligations	(5.38)	(5.37)	(0.01)	0.4	(5.89)	(6.15)	0.26	(3.9)
<b>Adjusted CASM</b>	¢ 12.15	¢ 12.20	¢ (0.05)	(0.4)	¢ 13.41	¢ 13.24	¢ 0.17	1.2

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

### Non-Operating Expense

In the third quarter and first nine months of 2024, non-operating expenses totalled \$143 million and \$281 million, respectively, compared to non-operating expenses of \$98 million and \$110 million in the same periods of 2023.

Foreign exchange losses amounted to \$85 million in the third quarter of 2024 and \$28 million in the first nine months of 2024. The September 30, 2024, closing exchange rate was US\$1=\$1.3525 compared to US\$1=\$1.3679 at June 30, 2024, and US\$1=1.3243 at December 31, 2023. In the third quarter of 2024, translation gains on monetary items were offset by \$171 million foreign exchange loss related to foreign currency derivatives (for the nine months ended September 30, 2024, translation losses on monetary items were partially offset by a \$218 million gain on foreign currency derivatives). In the prior year, foreign exchange losses of \$61 million and gains of \$317 million in the third quarter and first nine months of 2023 were recorded.

Interest expense of \$180 million and \$579 million in the third quarter and first nine months of 2024, decreased \$56 million and \$143 million, respectively, from the same periods in 2023. This was driven by lower debt levels resulting from debt prepayments made in 2023 and March 2024. For additional information on debt repayments, refer to section 7.2 "Net Debt" of this MD&A.

Gain on financial instruments recorded at fair value was \$26 million in the third quarter of 2024 and \$66 million in the first nine months of 2024, primarily resulting from fluctuations in the fair value of Air Canada's convertible notes with gains of \$13 million and \$46 million, respectively.



A loss on debt settlement of \$46 million was recorded in the first quarter of 2024, related to the write-off of unamortized debt issuance costs associated with the refinancing transaction completed in March 2024 and described in section 7.2 "Net Debt" of this MD&A.

**Income Taxes**

In connection with the preparation of the financial statements for the period ended September 30, 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Accordingly, previously unrecognized deferred income tax assets of \$1,056 million was recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of \$1,154 million. Refer to section 11 "Critical Accounting Estimates and Judgements" of this MD&A for additional information.


## 6. FLEET


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

### Mainline and Air Canada Rouge

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

The scheduled delivery dates for the Boeing 737 MAX aircraft presented in the table below may be impacted by the labour disruptions at The Boeing Company.

 <b>AIR CANADA</b>	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	Sep. 30, 2024	Remainder of 2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025
<b>Wide-body aircraft</b>							
Boeing 777-300ER	19	-	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	30	1	31	-	31	1	32
Boeing 767-300ER	-	-	-	-	-	2	2
Boeing 767-300 freighters <sup>(1)</sup>	7	(1)	6	-	6	-	6
Airbus A330-300	18	2	20	-	20	-	20
<b>Total wide-body aircraft</b>	<b>88</b>	<b>2</b>	<b>90</b>	<b>-</b>	<b>90</b>	<b>3</b>	<b>93</b>
<b>Narrow-body aircraft</b>							
Boeing 737 MAX 8	40	1	41	5	46	7	53
Airbus A321XLR	-	-	-	-	-	2	2
Airbus A321	16	1	17	-	17	-	17
Airbus A320	19	3	22	-	22	-	22
Airbus A319	7	(2)	5	-	5	-	5
Airbus A220-300	33	-	33	2	35	9	44
<b>Total narrow-body aircraft</b>	<b>115</b>	<b>3</b>	<b>118</b>	<b>7</b>	<b>125</b>	<b>18</b>	<b>143</b>
<b>Total Mainline</b>	<b>203</b>	<b>5</b>	<b>208</b>	<b>7</b>	<b>215</b>	<b>21</b>	<b>236</b>


	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	Sep. 30, 2024	Remainder of 2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025
<b>Narrow-body aircraft</b>							
Airbus A321	17	-	17	-	17	-	17
Airbus A320	5	-	5	-	5	-	5
Airbus A319	18	-	18	-	18	-	18
<b>Total Air Canada Rouge</b>	<b>40</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>40</b>

<b>Total Mainline &amp; Rouge</b>	<b>243</b>	<b>5</b>	<b>248</b>	<b>7</b>	<b>255</b>	<b>21</b>	<b>276</b>
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(1) Excluded from the operating fleet at September 30, 2024, are two Boeing 767 freighter aircraft that were removed from service in April 2024.

**Air Canada Express**

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

 <b>AIR CANADA EXPRESS</b>	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	Sep. 30, 2024	Remainder of 2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200 <sup>(1)</sup>	15	(15)	-	-	-	-	-
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-400	43	2	45	-	45	(8)	37
<b>Total Air Canada Express</b>	<b>118</b>	<b>(13)</b>	<b>105</b>	<b>-</b>	<b>105</b>	<b>(8)</b>	<b>97</b>

(1) Excluded from the operating fleet at September 30, 2024, are 15 Mitsubishi CRJ-200 aircraft that are in long-term storage.

## 7. FINANCIAL AND CAPITAL MANAGEMENT

### 7.1 LIQUIDITY

#### Liquidity Risk Management

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 7.5 "Capital Expenditures and Related Financing Arrangements", 7.6 "Pension Funding Obligations", and 7.7 "Contractual Obligations" of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least 12 months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements and establishing programs to monitor and maintain compliance with terms of financing agreements. In addition, Air Canada monitors its financial leverage as measured by the net debt to adjusted EBITDA ratio, as further described in section 7.2 "Net Debt" of this MD&A.

At September 30, 2024, total liquidity was \$10,261 million comprising cash and cash equivalents, short-term and long-term investments of \$8,942 million, and \$1,319 million available under undrawn credit facilities. Cash and cash equivalents included \$243 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents, and short-term and long-term investments. Liquidity needs, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

## 7.2 NET DEBT

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

(in millions, except where indicated)	September 30, 2024	December 31, 2023	\$ Change
Total long-term debt and lease liabilities	\$ 10,716	\$ 12,996	\$ (2,280)
Current portion of long-term debt and lease liabilities	1,652	866	786
<b>Total long-term debt and lease liabilities (including current portion)</b>	<b>12,368</b>	<b>13,862</b>	<b>(1,494)</b>
Less cash, cash equivalents and short- and long-term investments	(8,942)	(9,295)	353
<b>Net debt <sup>(1)</sup></b>	<b>\$ 3,426</b>	<b>\$ 4,567</b>	<b>\$ (1,141)</b>
<b>Adjusted EBITDA (trailing 12 months)</b>	<b>\$ 3,411</b>	<b>3,982</b>	<b>(571)</b>
<b>Net debt to adjusted EBITDA ratio <sup>(1)</sup></b>	<b>1.0</b>	<b>1.1</b>	<b>(0.1)</b>

(1) *Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Net debt to adjusted EBITDA ratio (also referred to as "leverage ratio" in this MD&A) is a non-GAAP financial ratio and is used by Air Canada to measure financial leverage. For additional information on net debt, refer to section 16 "Non-GAAP Financial Measures" of this MD&A.*

Net debt to adjusted EBITDA ratio was 1.0 at September 30, 2024, compared to 1.1 at December 31, 2023. This was mainly due to the reduction in net debt achieved in the first nine months of 2024, which was supported by the free cash flow generated in the period. The decrease in total debt and lease liabilities included \$1.475 billion (US\$1.09 billion) in repayments made in the first quarter of 2024 in connection with the refinancing transaction completed in March 2024.

In March 2024, Air Canada entered into US\$2.15 billion senior secured credit facilities, comprising a US\$1.175 billion term loan B maturing in 2031 and a US\$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US\$1.09 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 new revolving facility, which is the result of an increase and extension of Air Canada's previous US\$600 million revolving credit facility previously maturing in 2025, is undrawn as of September 30, 2024. Concurrently with the closing of these senior credit facilities, Air Canada also terminated its undrawn \$200 million revolving credit facility maturing in 2026.

## 7.3 WORKING CAPITAL

The table below provides information on Air Canada's working capital balances as at the dates indicated.

(in millions)	September 30, 2024	December 31, 2023	\$ Change
Cash, cash equivalents and short-term investments	\$ 8,380	\$ 8,551	\$ (171)
Accounts receivable	1,176	1,121	55
Other current assets	702	588	114
<b>Total current assets</b>	<b>\$ 10,258</b>	<b>\$ 10,260</b>	<b>\$ (2)</b>
Accounts payable and accrued liabilities	3,509	3,328	181
Advance ticket sales	4,487	4,341	146
Aeroplan and other deferred revenues	1,478	1,473	5
Current portion of long-term debt and lease liabilities	1,652	866	786
<b>Total current liabilities</b>	<b>\$ 11,126</b>	<b>\$ 10,008</b>	<b>\$ 1,118</b>
<b>Net working capital</b>	<b>\$ (868)</b>	<b>\$ 252</b>	<b>\$ (1,120)</b>

Net working capital deficiency of \$868 million at September 30, 2024, reflected the use of \$1.475 billion (US\$1.09 billion) of cash to reduce Air Canada's outstanding senior secured indebtedness in connection with the refinancing transaction completed in March 2024, and discussed in section 7.2 "Net Debt" of this MD&A.

In addition, \$341 million of Air Canada's outstanding convertible notes were reclassified to current liabilities as they are convertible at the option of the noteholders as of March 1, 2025. Certain aircraft debt of \$374 million was reclassified to current portion of debt as it matures in May 2025. Offsetting these factors were the positive earnings and cash from operations recorded during the year.



## 7.4 CASH FLOW MOVEMENTS

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2024	2023	\$ Change	2024	2023	\$ Change
Net cash flows from operating activities	\$ 737	\$ 408	\$ 329	\$ 3,253	\$ 3,335	\$ (82)
Net cash flows used in financing activities	\$ (217)	\$ (809)	\$ 592	\$ (2,157)	\$ (2,036)	\$ (121)
Net cash flows used in investing activities	\$ (140)	\$ (71)	\$ (69)	\$ (518)	\$ (1,538)	\$ 1,020
Effect of exchange rate changes on cash and cash equivalents	(8)	6	\$ (14)	(2)	6	\$ (8)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 372</b>	<b>\$ (466)</b>	<b>\$ 838</b>	<b>\$ 576</b>	<b>\$ (233)</b>	<b>\$ 809</b>

### Net Cash Flows from Operating Activities

Net cash flows from operating activities were positive in the third quarter and first nine months of 2024. Cash from working capital more than offset the declines in operating results.

### Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities amounted to \$217 million in the third quarter and \$2,157 million in the first nine months of 2024. By comparison to the prior year, in the third quarter of 2023, net cash flows used in financing activities of \$809 million related to scheduled debt repayments and \$589 million from the prepayment of loans which had been used to finance the acquisition of Boeing 787 and Airbus A220 aircraft.

The first nine months of 2024 included the \$1.475 billion (US\$1.09 billion) debt repayment in the refinancing transaction completed in March 2024 and described in section 7.2 "Net Debt" of this MD&A.

### Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities amounted to \$140 million in the third quarter and \$518 million in the first nine months of 2024. The first nine months of 2024 included net proceeds of \$953 million in disposal of short- and long-term investments to facilitate the \$1.475 billion (US\$1.09 billion) net repayment of long-term debt in March 2024 as described in section 7.3 "Working Capital" of this MD&A.

Additions to property, equipment and intangible assets were \$1,464 million in the first nine months of 2024, compared to \$1,248 million in the first nine months of 2023. The year-over-year increase mainly reflected higher capitalized maintenance and general capital expenditures.

Refer to sections 7.2 "Net Debt", and 7.3 "Working Capital" of this MD&A for additional information.

**Free Cash Flow**

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2024	2023	\$ Change	2024	2023	\$ Change
<b>Net cash flows from operating activities</b>	\$ 737	\$ 408	\$ 329	\$ 3,253	\$ 3,335	\$ (82)
Additions to property, equipment, and intangible assets	(455)	(273)	(182)	(1,464)	(1,248)	(216)
<b>Free cash flow <sup>(1)</sup></b>	\$ 282	\$ 135	\$ 147	\$ 1,789	\$ 2,087	\$ (298)

(1) *Free cash flow is a non-GAAP financial measure used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash it can generate from operations after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets and net of proceeds from sale and leaseback transactions. Such measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.*

Air Canada generated \$1,789 million in free cash flow in the first nine months of 2024. This was lower than the 2023 year to date comparative period driven by increased capital expenditures and lower net cash flows from operating activities.

## 7.5 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS

### Airbus A321XLR Aircraft

Air Canada is acquiring 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in the fourth quarter of 2025 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 10 additional aircraft between 2029 and 2031.

### Airbus A220-300 Aircraft

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

- Firm orders for 60 Airbus A220-300 aircraft.
- Purchase options for 15 additional Airbus A220-300 aircraft.

Of the above-mentioned 60 firm orders, 33 have been delivered. Deliveries for the 27 remaining firm orders are planned to begin in the fourth quarter of 2024 and continue into 2026.

### Boeing 737 MAX

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

In 2023, Air Canada entered into lease agreements for five additional Boeing 737 MAX 8 aircraft that are scheduled to enter the operating fleet in 2025.

In June 2024, Air Canada entered into lease agreements for eight additional Boeing 737 MAX 8 aircraft, of which one was delivered in June 2024. Five of these aircraft are scheduled for delivery later in 2024 and the last two are scheduled for delivery in 2025. All eight aircraft are scheduled to enter service in 2025, after having completed modification requirements.

The scheduled delivery dates for the Boeing 737 MAX aircraft presented in the table below may be impacted by the labour disruptions at The Boeing Company.

### Boeing 767 Freighter Aircraft

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

### Boeing 787-9 Aircraft

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

### Boeing 787-10 Aircraft

In September 2023, Air Canada announced that it is acquiring 18 Boeing 787-10 aircraft. Deliveries are scheduled to begin in 2026 with the last aircraft scheduled for delivery in 2027. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft.

### Heart Aerospace ES-30 Electric Aircraft

In 2022, Air Canada entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. The purchase remains subject to conditions including in relation to the design and specifications of the aircraft.

In addition, the final cost for the aircraft, which is subject to a price cap, is not yet determinable and is not included in the table below. These aircraft would not be expected to start entry into service before at least 2029.

### Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at September 30, 2024, amounted to \$13,179 million.

(in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
Committed expenditures	\$ 646	\$ 2,365	\$ 3,674	\$ 2,789	\$ 873	\$ 2,832	\$ 13,179
Projected planned but uncommitted expenditures	153	425	701	552	682	Not available	Not available
Projected planned but uncommitted capitalized maintenance <sup>(1)</sup>	224	763	615	767	612	Not available	Not available
<b>Total projected expenditures <sup>(2)</sup></b>	<b>\$ 1,023</b>	<b>\$ 3,553</b>	<b>\$ 4,990</b>	<b>\$ 4,108</b>	<b>\$ 2,167</b>	<b>Not available</b>	<b>Not available</b>

(1) Future capitalized maintenance amounts for 2027 and beyond are not yet determinable, however, estimates of \$767 million and \$612 million have been made for each of 2027 and 2028, respectively.

(2) U.S. dollar amounts are converted using the September 30, 2024, closing exchange rate of US\$1=C\$1.3525. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

## 7.6 PENSION FUNDING OBLIGATIONS

At January 1, 2024, the aggregate solvency surplus in Air Canada's domestic registered pension plans was \$4.3 billion. As permitted by legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

As a result of the collective agreement concluded with the Air Line Pilots Association, the impact of the amendments to the defined benefit pension plans will be recognized in the fourth quarter of 2024. Air Canada will be recording a one-time pension past service cost of approximately \$500 million as a result of the plan amendments. Certain of these plan amendments are conditional on future pension solvency surplus positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. These amendments will be funded out of the surplus in the Pilots' domestic registered pension plan and are not expected to impact Air Canada's liquidity position.

Air Canada's pension funding obligations are discussed in section 8.6 "Pension Funding Obligations" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

## 7.7 CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at September 30, 2024, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
<b>Principal</b>							
Long-term debt <sup>(1)</sup>	\$ 99	\$ 1,107	\$ 2,379	\$ 1,046	\$ 1,371	\$ 4,202	\$ 10,204
Lease liabilities	141	560	406	309	230	783	2,429
<b>Total principal obligations</b>	<b>\$ 240</b>	<b>\$ 1,667</b>	<b>\$ 2,785</b>	<b>\$ 1,355</b>	<b>\$ 1,601</b>	<b>\$ 4,985</b>	<b>\$ 12,633</b>
<b>Interest</b>							
Long-term debt	71	447	390	296	237	367	1,808
Lease liabilities	36	122	94	73	57	297	679
<b>Total interest obligations</b>	<b>\$ 107</b>	<b>\$ 569</b>	<b>\$ 484</b>	<b>\$ 369</b>	<b>\$ 294</b>	<b>\$ 664</b>	<b>\$ 2,487</b>
<b>Total long-term debt and lease liabilities</b>	<b>\$ 347</b>	<b>\$ 2,236</b>	<b>\$ 3,269</b>	<b>\$ 1,724</b>	<b>\$ 1,895</b>	<b>\$ 5,649</b>	<b>\$ 15,120</b>
<b>Committed capital expenditures</b>	<b>\$ 646</b>	<b>\$ 2,365</b>	<b>\$ 3,674</b>	<b>\$ 2,789</b>	<b>\$ 873</b>	<b>\$ 2,832</b>	<b>\$ 13,179</b>
<b>Total contractual obligations <sup>(2)</sup></b>	<b>\$ 993</b>	<b>\$ 4,601</b>	<b>\$ 6,943</b>	<b>\$ 4,513</b>	<b>\$ 2,768</b>	<b>\$ 8,481</b>	<b>\$ 28,299</b>

(1) Assumes the principal balance of the convertible notes, \$371 million (US\$274 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility in connection with the Government of Canada financing to support customer refunds of non-refundable tickets is included.

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

## 7.8 SHARE INFORMATION

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

	September 30, 2024	December 31, 2023
<b>Issued and outstanding shares</b>		
Class A variable voting shares	61,980,381	82,887,375
Class B voting shares	296,512,625	275,581,911
<b>Total issued and outstanding shares</b>	<b>358,493,006</b>	<b>358,469,286</b>
<b>Class A variable voting and Class B voting shares potentially issuable</b>		
Convertible notes	17,856,599	17,856,599
Stock options	9,123,030	6,642,516
<b>Total shares potentially issuable</b>	<b>26,979,629</b>	<b>24,499,115</b>
<b>Total outstanding and potentially issuable shares</b>	<b>385,472,635</b>	<b>382,968,401</b>

### Normal Course Issuer Bid

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

In connection with the Issuer Bid, Air Canada will enter into an automatic share purchase plan (the "Plan") with its designated broker to facilitate the purchase of Shares under the Issuer Bid at times when Air Canada would ordinarily not be permitted to purchase its Shares due to regulatory restrictions or self-imposed blackout periods. Air Canada self-imposes regular blackouts during the period commencing fifteen days prior to the end of each fiscal quarter to, and including, two trading days after the public announcement of Air Canada's quarterly or annual financial results. Pursuant to the Plan, before entering a blackout period, Air Canada may, but is not required to, instruct the designated broker to make purchases under the Issuer Bid based on parameters established by Air Canada. Such purchases will be determined by the designated broker based on Air Canada's parameters in accordance with the rules of the TSX, applicable securities laws and the terms of the Plan.



## 8. QUARTERLY FINANCIAL DATA

The table below summarizes quarterly financial results for Air Canada for the last eight quarters.

(in millions, except per share figures)	2022	2023				2024		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenues	\$ 4,680	\$ 4,887	\$ 5,427	\$ 6,344	\$ 5,175	\$ 5,226	\$ 5,519	\$ 6,106
Operating expenses	4,708	4,904	4,625	4,929	5,096	5,215	5,053	5,066
<b>Operating income (loss)</b>	<b>(28)</b>	<b>(17)</b>	<b>802</b>	<b>1,415</b>	<b>79</b>	<b>11</b>	<b>466</b>	<b>1,040</b>
Non-operating income (expense)	174	(6)	(6)	(98)	43	(76)	(62)	(143)
<b>Income (loss) before income taxes</b>	<b>146</b>	<b>(23)</b>	<b>796</b>	<b>1,317</b>	<b>122</b>	<b>(65)</b>	<b>404</b>	<b>897</b>
Income tax recovery (expense)	22	27	42	(67)	62	(16)	6	1,138
<b>Net income (loss)</b>	<b>\$ 168</b>	<b>\$ 4</b>	<b>\$ 838</b>	<b>\$ 1,250</b>	<b>\$ 184</b>	<b>\$ (81)</b>	<b>\$ 410</b>	<b>\$ 2,035</b>
<b>Basic earnings (loss) per share</b>	<b>\$ 0.47</b>	<b>\$ 0.01</b>	<b>\$ 2.34</b>	<b>\$ 3.49</b>	<b>\$ 0.51</b>	<b>\$ (0.22)</b>	<b>\$ 1.14</b>	<b>\$ 5.68</b>
<b>Diluted earnings (loss) per share</b>	<b>\$ 0.41</b>	<b>\$ (0.03)</b>	<b>\$ 2.34</b>	<b>\$ 3.08</b>	<b>\$ 0.41</b>	<b>\$ (0.22)</b>	<b>\$ 1.04</b>	<b>\$ 5.38</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>\$ 389</b>	<b>\$ 411</b>	<b>\$ 1,220</b>	<b>\$ 1,830</b>	<b>\$ 521</b>	<b>\$ 453</b>	<b>\$ 914</b>	<b>\$ 1,523</b>
<b>Adjusted pre-tax income (loss) <sup>(1)</sup></b>	<b>\$ (211)</b>	<b>\$ (194)</b>	<b>\$ 656</b>	<b>\$ 1,278</b>	<b>\$ (47)</b>	<b>\$ (94)</b>	<b>\$ 371</b>	<b>\$ 985</b>
<b>Adjusted net income (loss) <sup>(1)</sup></b>	<b>\$ (217)</b>	<b>\$ (188)</b>	<b>\$ 664</b>	<b>\$ 1,281</b>	<b>\$ (44)</b>	<b>\$ (96)</b>	<b>\$ 369</b>	<b>\$ 969</b>
<b>Adjusted earnings (loss) per share – diluted <sup>(1)</sup></b>	<b>\$ (0.61)</b>	<b>\$ (0.53)</b>	<b>\$ 1.85</b>	<b>\$ 3.41</b>	<b>\$ (0.12)</b>	<b>\$ (0.27)</b>	<b>\$ 0.98</b>	<b>\$ 2.57</b>

(1) Adjusted EBITDA, adjusted pre-tax income (loss) and adjusted net income (loss) are non-GAAP financial measures. Adjusted earnings (loss) per share is a non-GAAP financial ratio. For additional information, refer to section 16 "Non-GAAP Financial Measures" of this MD&A.

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 11 "Financial Instruments and Risk Management" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's financial instruments and risk management practices from what was disclosed at that time except as otherwise described below. Additional information on Air Canada's risk management practices and financial instruments is provided in Note 9 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2024.

### Foreign Exchange Risk Management

In the third quarter of 2024, Air Canada increased its target foreign currency derivative coverage from 60% to 70% on a rolling 18-month basis to manage its net U.S. dollar cash flow exposure.

### Fuel Price Risk Management

During the third quarter of 2024, fuel derivative contracts cash settled with a fair value of \$8 million in favour of the counterparties, with a hedging loss of \$8 million recorded in Aircraft fuel expense (\$33 million hedging loss for the nine months ended September 30, 2024; \$68 million hedging gain for the three- and nine-month periods ended September 30, 2023).

As at September 30, 2024, approximately 50% of Air Canada's anticipated purchases of jet fuel for the fourth quarter of 2024 are hedged at an average jet fuel price of US\$0.5814 per litre. The contracts are comprised of jet fuel swaps and have a fair value of \$41 million in favour of the counterparties at September 30, 2024.

## 10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2023 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Additional information on Air Canada's accounting policies is provided in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2024.

### IAS 12 Income Taxes

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

In June 2024, the Global Minimum Tax Act was enacted in Canada, which is a jurisdiction where the Corporation has a constituent entity for the purposes of Pillar Two. Air Canada adopted the amendments to IAS 12 in the second quarter of 2024 and applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. This exception has been applied retrospectively but no adjustments to previously reported figures were required and it had no impact for the period ended September 30, 2024.

### Accounting standards and amendments issued but not yet effective

The following accounting standard and amendments to accounting standards issued by the IASB have not yet been adopted by the Corporation.

**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 is evaluating 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 will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted. Air Canada is evaluating the impact of these amendments on its consolidated financial statements.

## 11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Air Canada's critical accounting estimates and judgments are summarized in section 13 "Critical Accounting Estimates and Judgments" of Air Canada's 2023 MD&A. Critical accounting estimates are those estimates of management that are most important to the portrayal of Air Canada's financial condition and results of operations. They require management's most difficult, subjective or complex judgments, often because of the need to make estimates and judgments about the effect of matters that are inherently uncertain. Actual results could differ materially from those estimates.

In the third quarter of 2024, estimates and judgements in the following areas were updated.

### Income Taxes

As described in Note 11 to the 2023 annual consolidated financial statements, Air Canada has temporary differences and tax loss carry forwards for which no deferred income tax assets had previously been recognized. During the third quarter of 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. For additional information, refer to Note 6 Income taxes of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2024.

### Provisions

A charge of \$34 million was recorded in the third quarter of 2024 in other operating expenses reflecting the estimated costs related to contractual lease obligations.

## 12. OFF-BALANCE SHEET ARRANGEMENTS

Air Canada's off-balance sheet arrangements are summarized in section 14 "Off-Balance Sheet Arrangements" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

## 13. RELATED PARTY TRANSACTIONS

As at September 30, 2024, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

## 14. RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 18 "Risk Factors" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's risk factors from what was disclosed at that time.

## 15. CONTROLS AND PROCEDURES

Air Canada's controls and procedures are summarized in section 19 "Controls and Procedures" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's controls and procedures from what was disclosed at that time.

## 16. NON-GAAP FINANCIAL MEASURES

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

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

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

### **Adjusted CASM**

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

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

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada had six Boeing 767 dedicated freighter aircraft in service as at September 30, 2024, and six as at September 30, 2023. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison of the passenger airline business across periods.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	Third Quarter			First Nine Months		
	2024	2023	Change	2024	2023	Change
<b>Operating expense – GAAP</b>	\$ 5,066	\$ 4,929	\$ 137	\$ 15,334	\$ 14,458	\$ 876
<b>Adjusted for:</b>						
Aircraft fuel	(1,377)	(1,365)	(12)	(3,964)	(3,927)	(37)
Ground package costs	(102)	(99)	(3)	(574)	(543)	(31)
Freighter costs (excluding fuel)	(40)	(41)	1	(113)	(111)	(2)
Provision for contractual lease obligations	(34)	-	(34)	(34)	-	(34)
<b>Operating expense, adjusted for the above-noted items</b>	\$ 3,513	\$ 3,424	\$ 89	10,649	9,877	772
<b>ASMs (millions)</b>	28,892	28,060	3.0%	79,432	74,573	6.5%
<b>Adjusted CASM (cents)</b>	¢ 12.15	¢ 12.20	¢ (0.05)	¢ 13.41	¢ 13.24	¢ 0.17

### Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenues) is commonly used in the airline industry and is used by Air Canada as a means to measure the operating margin before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

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

(Canadian dollars in millions, except where indicated)	Third Quarter			First Nine Months		
	2024	2023	Change	2024	2023	Change
<b>Operating income – GAAP</b>	\$ 1,040	\$ 1,415	\$ (375)	\$ 1,517	\$ 2,200	\$ (683)
<b>Add back:</b>						
Depreciation and amortization	449	415	34	1,339	1,261	78
<b>EBITDA</b>	1,489	1,830	(341)	2,856	3,461	(605)
<b>Add back:</b>						
Provision for contractual lease obligations	34	-	34	34	-	34
<b>Adjusted EBITDA</b>	\$ 1,523	\$ 1,830	\$ (307)	\$ 2,890	\$ 3,461	\$ (571)
<b>Operating revenues</b>	\$ 6,106	\$ 6,344	\$ (238)	\$ 16,851	\$ 16,658	\$ 193
<b>Operating margin (%)</b>	17.0	22.3	(5.3) pp	9.0	13.2	(4.2) pp
<b>Adjusted EBITDA margin (%)</b>	24.9	28.8	(3.9) pp	17.2	20.8	(3.6) pp

**Adjusted Pre-tax Income (Loss)**

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

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2024	2023	\$ Change	2024	2023	\$ Change
<b>Income before income taxes – GAAP</b>	<b>\$ 897</b>	<b>\$ 1,317</b>	<b>\$ (420)</b>	<b>\$ 1,236</b>	<b>\$ 2,090</b>	<b>\$ (854)</b>
<b>Adjusted for:</b>						
Provision for contractual lease obligations	34	-	34	34	-	34
Foreign exchange (gain) loss	85	61	24	28	(317)	345
Net interest relating to employee benefits	(5)	(6)	1	(16)	(18)	2
Gain on financial instruments recorded at fair value	(26)	(101)	75	(66)	(24)	(42)
Loss on debt settlement	-	7	(7)	46	9	37
<b>Adjusted pre-tax income</b>	<b>\$ 985</b>	<b>\$ 1,278</b>	<b>\$ (293)</b>	<b>\$ 1,262</b>	<b>\$ 1,740</b>	<b>\$ (478)</b>

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

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

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2024	2023	\$ Change	2024	2023	\$ Change
<b>Net income – GAAP</b>	\$ 2,035	\$ 1,250	\$ 785	\$ 2,364	\$ 2,092	\$ 272
<b>Adjusted for:</b>						
Provision for contractual lease obligations	34	-	34	34	-	34
Foreign exchange (gain) loss	85	61	24	28	(317)	345
Net interest relating to employee benefits	(5)	(6)	1	(16)	(18)	2
Gain on financial instruments recorded at fair value	(26)	(101)	75	(66)	(24)	(42)
Loss on debt settlement	-	7	(7)	46	9	37
Income tax, including for the above reconciling items <sup>(1)</sup>	(1,154)	70	(1,224)	(1,148)	15	(1,163)
<b>Adjusted net income</b>	\$ 969	\$ 1,281	\$ (312)	\$ 1,242	\$ 1,757	\$ (515)
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	376	376	-	376	376	-
<b>Adjusted earnings per share – diluted</b>	\$ 2.57	\$ 3.41	\$ (0.84)	\$ 3.30	\$ 4.67	\$ (1.37)

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

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

(In millions)	Third Quarter		First Nine Months	
	2024	2023	2024	2023
<b>Weighted average number of shares outstanding – basic</b>	358	358	358	358
Effect of dilution	18	18	18	18
<b>Weighted average number of shares outstanding – diluted</b>	376	376	376	376



**Free Cash Flow**

Air Canada uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada can generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Refer to section 7.4 "Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

**Net Debt**

Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Refer to section 7.2 "Net Debt" of this MD&A for a reconciliation of this non-GAAP measure to the nearest measure under GAAP.

## 17. GLOSSARY

**Adjusted CASM** – Refers to operating expense per ASM that is adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations and freighter costs. Adjusted CASM is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Adjusted EBITDA** – Refers to earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Adjusted EBITDA margin** – Refers to adjusted EBITDA as a percentage of operating revenue. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Adjusted net income (loss)** – Refers to the consolidated net income (loss) of Air Canada, adjusted to remove the after-tax effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, and gains or losses on disposal of assets. Adjusted net income (loss) is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Adjusted pre-tax income (loss)** – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, and gains or losses on disposal of assets. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Aeroplan** – Refers to Aeroplan Inc. or the Aeroplan program.

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

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

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

**CASM** – Refers to operating expense per ASM.

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

**Free cash flow** – Refers to net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow is a non-GAAP financial measure. Refer to sections 7.4 “Cash Flow Movements” and 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Jazz** – Refers to Jazz Aviation LP.

**Leverage ratio** – Also known as net debt to adjusted EBITDA ratio. Refers to the ratio of net debt to trailing 12-month adjusted EBITDA (calculated by dividing net debt by trailing 12-month adjusted EBITDA). Leverage ratio is a non-GAAP financial measure. Refer to sections 7.2 “Net Debt” and 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

**Net debt** – Refers to total long-term debt liabilities (including current portion) less cash, cash equivalents, and short- and long-term investments. Refer to section 7.2 “Net Debt” of this MD&A for a reconciliation of this capital management measure to the nearest measure under GAAP.

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

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

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

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

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

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

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

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

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

**Yield** – Refers to average passenger revenue per RPM.