

First Quarter 2026

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

April 30, 2026

AIR CANADA

A STAR ALLIANCE MEMBER

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1. SELECTED FINANCIAL METRICS AND STATISTICS

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

(Canadian dollars in millions, except per share data or where indicated)	First Quarter		
Financial Performance Metrics	**2026**	**2025**	**$ Change**
Operating revenues	5,785	5,196	589
Operating income (loss)	117	(108)	225
Operating margin [1] (%)	2.0	(2.1)	4.1 pp [8]
Adjusted EBITDA [2]	623	387	236
Adjusted EBITDA margin [2] (%)	10.8	7.4	3.4 pp
Income (loss) before income taxes	123	(167)	290
Net income (loss)	48	(102)	150
Adjusted pre-tax income (loss) [2]	18	(215)	233
Adjusted net loss [2]	(16)	(150)	134
Total liquidity [3]	8,798	9,464	(666)
Net cash flows from operating activities	1,798	1,526	272
Free cash flow [2]	1,604	831	773
Net debt [2]	4,860	4,665	195
Long-term debt and lease liabilities	12,301	12,726	(425)
Diluted earnings (loss) per share	0.16	(0.40)	0.56
Adjusted loss per share – diluted [2]	(0.05)	(0.45)	0.40
Operating Statistics [4]	**2026**	**2025**	**Change %**
Revenue passenger miles (RPMs) (millions)	21,373	19,887	7.5
Available seat miles (ASMs) (millions)	24,829	24,240	2.4
Passenger load factor %	86.1%	82.0%	4.0 pp
Passenger revenue per RPM (Yield) (cents)	22.4	21.8	2.9
Passenger revenue per ASM (PRASM) (cents)	19.3	17.9	8.0
Operating revenue per ASM (TRASM) (cents)	23.3	21.4	8.7
Operating expense per ASM (CASM) (cents)	22.8	21.9	4.3
Adjusted CASM (cents) [2]	16.1	15.3	5.5
Average number of full-time-equivalent (FTE) employees (thousands) [5]	35.9	37.2	(3.3)
Aircraft in operating fleet at period-end	355	359	(1.1)
Seats dispatched (thousands)	13,405	13,339	0.5
Aircraft frequencies (thousands)	92.0	91.3	0.8
Average stage length (miles) [6]	1,852	1,817	1.9
Fuel cost per litre (cents)	97.9	97.7	0.2
Fuel litres (thousands)	1,205,173	1,191,444	1.2
Revenue passengers carried (thousands) [7]	10,960	10,383	5.6

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

(2) Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and impairment), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 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 March 31, 2026, of $8,798 million, consisted of $7,441 million in cash, cash equivalents, and short- and long-term investments, and $1,357 million available under undrawn credit facilities. As at March 31, 2025, total liquidity of $9,464 million consisted of $8,061

million in cash, cash equivalents, short- and long-term investments and $1,403 million available under undrawn credit facilities. These amounts also include funds ($259 million as at March 31, 2026 and $197 million as at March 31, 2025) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.

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

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

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

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

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

2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A), Air Canada refers, as the context may require, to Air Canada alone or Air Canada and one or more of its subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge), or to one or more of such subsidiaries. This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the first quarter of 2026. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the first quarter of 2026 dated April 30, 2026. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IFRS Accounting Standards), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of April 30, 2026.

We describe risks relating to Air Canada in section 18 "Risk Factors" of Air Canada's 2025 MD&A and section 14 "Risk Factors" of this MD&A. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at **www.sedarplus.ca**.

Caution Regarding Forward-Looking Information

Forward-looking statements are included in this MD&A. We discuss risks, uncertainties and assumptions relating to these statements in this section. Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions, Air Canada's multi-year fleet modernization program and planned fleet changes, capital allocation priorities, expectations to meet liquidity needs over the next 12 months, and intentions to refinance outstanding senior indebtedness in 2026. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

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

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic conditions, including high or volatile fuel prices or significant disruptions in the supply of aircraft fuel, including as a result of the military conflict in the Middle East, statements or actions by governments and uncertainty relating to the imposition of (or threats to impose) tariffs on Canadian exports or imports and their resulting impacts on the Canadian, North American and global economies and travel demand, geopolitical and security conditions including in relation to the military conflicts in the Middle East and between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, Air Canada's dependence on technology, cybersecurity risks, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), employee and labour relations and costs, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay or refinance its indebtedness and maintain or increase liquidity on favourable terms and on a timely basis, Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, epidemic diseases, changes in laws, regulatory developments or proceedings, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations as well as the factors identified in

Air Canada's public disclosure file available at www.sedarplus.ca and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2025 MD&A 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 aspirations are ambitious and heavily dependent on new technologies, renewable energies and the availability of a sufficient supply of sustainable aviation fuels (SAF), which continues to present serious challenges. In addition, Air Canada has incurred, and expects to continue to incur, costs to achieve its goal of net-zero carbon emissions and to comply with environmental sustainability legislation and regulation and other standards and accords. The precise nature of future binding or non-binding legislation, regulation, standards and accords, on which local and international stakeholders are increasingly focusing, cannot be predicted with any degree of certainty, nor can their financial, operational or other impact. There can be no assurance of the extent to which any of our climate goals will be achieved or that any future investments that we make in furtherance of achieving our climate goals will produce the expected results or meet increasing stakeholder environmental, social and governance expectations. Moreover, future events could lead Air Canada to prioritize other nearer-term interests over progressing toward our current climate goals based on business strategy, economic, regulatory and social factors, and potential pressure from investors, activist groups or other stakeholders. If we are unable to meet or properly report on our progress toward achieving our climate change goals and commitments, we could face adverse publicity and reactions from investors, customers, advocacy groups or other stakeholders, which could result in reputational harm or other adverse effects to Air Canada.

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

Key Assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements—including current demand trends continuing for the second quarter of 2026, and that the Canadian dollar will trade, on average, at C$1.36 per U.S. dollar for the second quarter of 2026. Air Canada is assuming that the price of jet fuel will average at approximately C$1.28 per litre for the second quarter of 2026, which includes an estimated hedging gain of C$0.21 per litre. Our assumption is based on the forward curve as of April 28, 2026, adjusted to reflect Air Canada's specific supply chain environment, including Air Canada's fuel infrastructure at Canadian hubs, where fuel is typically contracted and received on a one- to two-month forward basis, as well as pricing exposure at international station locations. These jet fuel estimates reflect Air Canada's capacity plans and remain subject to ongoing volatility in global energy markets.

Intellectual Property

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

Incorporation of Other Information

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

3. ABOUT AIR CANADA

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

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

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

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

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

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

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

4. OVERVIEW

Air Canada saw the momentum from late 2025 continue into the first quarter of 2026. The strong demand across the network resulted in passenger traffic growth outpacing capacity additions, higher load factors and system yield increasing 2.9% year over year. While demand strength was broad-based, it was notably stronger in leisure-oriented international markets, including sun destinations, as well as in premium cabins.

Other revenues grew year over year due to higher ground package revenues at Air Canada Vacations, largely reflecting strong demand for vacation packages in the first quarter.

The cost environment in the first quarter of 2026 reflected higher operating costs across several categories, driven primarily by increased activity levels and inflationary pressures. Year-over-year cost increases included higher labour-related expenses, as well as higher costs associated with ground package costs, airport and navigation fees, sales and distribution and catering, consistent with higher capacity and passenger volumes.

In the first quarter of 2026, Air Canada generated $1,798 million in net cash flows from operating activities driven by strong advance ticket sales and operating results. First quarter 2026 free cash flow amounted to $1,604 million driven by higher operating cash flows and lower capital investments, net of proceeds from sale and leaseback of assets.

Conflict in the Middle East

Geopolitical developments in the Middle East resulted in operational disruptions in the region and in higher prices and volatility in global energy markets. Moreover, there has been significant disruption to international shipping trade routes through the Strait of Hormuz, further exacerbating the impact on fuel supply and prices, including for aircraft fuel. A prolonged or escalating conflict could further disrupt global energy markets and cause aircraft fuel prices to remain elevated or rise even higher. We cannot predict future supply constraints, price volatility or cost of aircraft fuel, or how long current or future conflicts will last or their ultimate impact on global energy markets and across the aviation industry.

In response, Air Canada implemented actions to mitigate the impact on operations and elevated fuel prices including adjusting fares, fees and certain capacity adjustments. Air Canada continues to monitor fuel price and supply developments and may take further actions, as appropriate, to manage its exposure. While the conflict led to higher aircraft fuel prices globally starting in March, the impact of higher fuel prices on Air Canada's first quarter results was partially mitigated by the use of fuel inventory purchased at lower prices and the gains from jet fuel hedging.

The following is an overview of Air Canada's results of operations and financial position for the first quarter 2026 compared to the same period in 2025. Refer to sections 5 "Results of Operations – Q1 2026 versus Q1 2025" for additional information on factors impacting the year-over-year performance.

First Quarter 2026 Financial Summary

- Operating revenues increased 11% to $5,785 million, reflecting strong growth in passenger revenues and other revenues.
- Operating expenses rose 7% to $5,668 million, mainly driven by higher traffic and capacity, as well as increased labour costs.
- Operating income reached $117 million, compared to an operating loss of $108 million in the first quarter of 2025. The improvement was driven by higher revenues. Operating margin was 2.0%, an improvement of 4.1 percentage points.
- Adjusted EBITDA rose to $623 million from $387 million, with adjusted EBITDA margin increasing 3.4 percentage points to 10.8%.
- Net income totaled $48 million, compared to a net loss of $102 million in Q1 2025. Diluted earnings per share were $0.16 versus a diluted loss per share of $0.40 in Q1 2025.
- Adjusted net loss was $16 million, compared to an adjusted loss of $150 million in Q1 2025, driven by improved operating performance. Adjusted loss per diluted share improved to ($0.05) from ($0.45).
- Adjusted CASM increased 5.5% year over year due to higher costs across several cost categories and a lower than planned capacity resulting from flight cancellations in the quarter.

- Net cash flows from operating activities were $1,798 million, and free cash flow was $1,604 million, compared to $1,526 million and $831 million, respectively, in Q1 2025.

5. RESULTS OF OPERATIONS – Q1 2026 VERSUS Q1 2025

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

(Canadian dollars in millions, except where indicated)	First Quarter			
	2026	2025	$ Change	% Change [1]
Operating revenues				
Passenger	$ 4,792	$ 4,331	461	11
Cargo	259	250	9	4
Other	734	615	119	19
Total operating revenues	**5,785**	**5,196**	**589**	**11**
Operating expenses				
Aircraft fuel	1,194	1,186	8	1
Wages, salaries and benefits	1,253	1,139	114	10
Depreciation, amortization and impairment	506	495	11	2
Airport and navigation fees	390	357	33	9
Aircraft maintenance	357	333	24	7
Sales and distribution costs	293	265	28	11
Capacity purchase fees	233	220	13	6
Ground package costs	432	373	59	16
Information technology	187	192	(5)	(3)
Catering and onboard services	173	137	36	26
Other	650	607	43	7
Total operating expenses	**5,668**	**5,304**	**364**	**7**
Operating income (loss)	**117**	**(108)**	**225**	
Non-operating income (expense)				
Foreign exchange gain (loss)	103	(11)	114	
Interest income	56	75	(19)	
Interest expense	(159)	(178)	19	
Interest capitalized	10	13	(3)	
Financial instruments recorded at fair value	3	54	(51)	
Loss on debt settlements	(56)	-	(56)	
Gain on sale and leaseback of assets	46	-	46	
Other	3	(12)	15	
Total non-operating income (expense)	**6**	**(59)**	**65**	
Income (loss) before income taxes	**123**	**(167)**	**290**	
Income tax recovery (expense)	(75)	65	(140)	
Net income (loss)	**$ 48**	**$ (102)**	**$ 150**	
Basic earnings (loss) per share	**$ 0.16**	**$ (0.31)**	**$ 0.47**	
Diluted earnings (loss) per share	**$ 0.16**	**$ (0.40)**	**$ 0.56**	
Adjusted EBITDA [2]	**$ 623**	**$ 387**	**$ 236**	
Adjusted pre-tax income (loss) [2]	**$ 18**	**$ (215)**	**$ 233**	
Adjusted net loss [2]	**$ (16)**	**$ (150)**	**$ 134**	
Adjusted loss per share – diluted [2]	**$ (0.05)**	**$ (0.45)**	**$ 0.40**	

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

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

System Passenger Revenues

Passenger revenues increased 11% year over year to $4,792 million driven by strong demand across the network, except for Transborder, which resulted in year-over-year gains in load factors and yields. The traffic and yield growth were driven by a strong performance across domestic, international and leisure-oriented markets, more noticeably in Latin America and the Caribbean.

Revenues from premium cabins continued to perform well and increased 11% in the first quarter of 2026, about 1 percentage point ahead of Economy class revenues, and represented 30% of total passenger revenues.

Sixth freedom revenues grew 18% year over year with strong traffic growth from the United States as well as in the Europe-Latin America market.

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

(Canadian dollars in millions)	First Quarter			
	2026	2025	$ Change	% Change [1]
Canada	$ 1,218	$ 1,122	$ 96	8.5
U.S. transborder	970	991	(21)	(2.1)
Atlantic	1,074	939	135	14.3
Pacific	714	631	83	13.1
Other	816	648	168	26.0
System	**$ 4,792**	**$ 4,331**	**$ 461**	**10.6**

(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.

	First Quarter 2026 versus First Quarter 2025					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	8.5	1.7	7.4	4.5	1.0	6.6
U.S. transborder	(2.1)	(10.5)	(5.9)	4.1	4.1	9.4
Atlantic	14.3	(1.1)	5.8	5.6	8.0	15.5
Pacific	13.1	6.0	9.3	2.7	3.4	6.7
Other	26.0	20.1	22.7	1.8	2.7	4.9
System	**10.6**	**2.4**	**7.5**	**4.0**	**2.9**	**8.0**

Domestic Passenger Revenues

Domestic revenues increased by $96 million or 8.5% to $1,218 million, driven primarily by a 4.5 percentage point increase in load factor and 1% growth in yield. These results reflected the continued strong demand in the domestic market and a higher fare environment.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues decreased by $21 million or 2.1% to $970 million, where lower traffic and capacity were partially offset by year-over-year gains in load factors and yields as a result of better alignment of capacity with demand.

Starting in late February 2025, travel between Canada and the United States experienced a notable decline, primarily driven by ongoing concerns regarding tariffs and related geopolitical uncertainties. As a result of this reduced demand, Air Canada and other carriers reduced their operated capacity in Transborder routes.

Atlantic Passenger Revenues

Atlantic passenger revenues increased by $135 million or 14.3% to $1,074 million. This result reflected very strong demand for Transatlantic travel, primarily continental Europe and the United Kingdom, this resulted in a year-over-year growth of 8.0% in yield and 5.6 percentage points higher passenger load factors. The growth was partially offset by the suspension of services to the Middle East as a result of the conflict in the region.

Pacific Passenger Revenues

Pacific passenger revenues increased by $83 million or 13.1% to $714 million. These results reflected the strong demand environment, particularly to Southeast Asia, Australia and Japan that supported the year-over-year load factor and yield growth.

Other Passenger Revenues

Other passenger revenues increased by $168 million or 26.0% to $816 million. On a capacity expansion of 20.1%, traffic increased 22.7% reflecting a very strong leisure demand in the sun market, which also drove a 2.7% increase in yield. The combined impact of significantly higher traffic and improved yields resulted in the strongest percentage revenue growth among all markets.

Cargo Revenues

Cargo revenues increased $9 million or 3.5% to $259 million in the first quarter of 2026. The increase was primarily driven by higher cargo volumes in all markets and yields in the domestic market. In addition, in response to the significant increase in the jet fuel prices, Air Canada Cargo implemented certain fuel surcharges, which, to a lesser extent, contributed to the increase. The growth was partially offset by weaker yields year-over-year in international and transborder markets.

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

(Canadian dollars in millions)	First Quarter			
	2026	2025	$ Change	% Change [1]
Canada	$ 39	$ 26	$ 13	49.6
U.S. transborder	13	15	(2)	(17.9)
Atlantic	88	89	(1)	(1.3)
Pacific	75	76	(1)	(1.0)
Other	44	44	-	1.3
System	**$ 259**	**$ 250**	**$ 9**	**3.5**

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

Other Revenues

Other revenues increased $119 million or 19% to $734 million in the first quarter of 2026. The year-over-year growth was driven primarily by higher ground package revenues at Air Canada Vacations, supported by strong leisure demand across our Sun network. To a lesser extent, higher non-air revenues related to the Aeroplan program also contributed to the increase.

Operating Expenses

Operating expenses increased $364 million, or 7%, to $5,668 million in the first quarter of 2026. The increase reflected higher capacity and traffic year over year as well as inflationary pressures across various cost categories. The more notable components of the year-over-year change in operating expenses are described below.

Aircraft fuel

Aircraft fuel expense was relatively stable year over year in the first quarter of 2026. Jet fuel prices increased late in the quarter, primarily in March, following geopolitical developments in the Middle East that contributed to volatility in global energy markets. However, the impact on the first quarter fuel expense was offset by lower-priced fuel inventory on hand and a jet fuel hedging gain of $38 million.

Wages, salaries and benefits

Wages, salaries and benefits expense increased $114 million, or 10%, to $1,253 million in the first quarter of 2026 driven by higher average salaries due to pay rate increases for eligible employee groups, higher benefits expense and was partially offset by lower full-time equivalent management employees.

Airport and navigation fees

Airport and navigation fees increased $33 million, or 9%, to $390 million in the first quarter of 2026 driven by higher airport-related charges, as well as the year-over-year capacity growth.

Aircraft maintenance

Maintenance expenses increased $24 million, or 7%, to $357 million in the first quarter of 2026 reflecting higher flying activity year over year and were partially offset by the reduction in the total number of Airbus A319 aircraft in the fleet. The year-over-year variance also reflected a favourable contract-related adjustment that was recorded in the first quarter of 2025.

Sales and distribution costs

Sales and distribution costs increased $28 million, or 11%, to $293 million in the first quarter of 2026 due to higher traffic and yields which resulted in higher payment- and distribution-related costs, including credit card fees and commissions.

Ground package costs

Ground package costs increased $59 million, or 16%, to $432 million in the first quarter of 2026 driven by a greater number of passengers and higher prices year over year.

Catering and onboard services

Catering and onboard services increased $36 million, or 26%, to $173 million. The increase was due to higher food prices, rates on catering services and traffic growth and mix year over year.

Other operating expenses

Other operating expenses increased $43 million, or 7%, to $650 million in the first quarter of 2026. The year-over-year increase reflected higher costs primarily in building rent and maintenance and terminal handling costs.

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

	First Quarter			
(Canadian dollars in millions)	**2026**	**2025**	**$ Change**	**% Change [1]**
Terminal handling	$ 145	$ 135	$ 10	7
Crew cycle	85	79	6	8
Building rent and maintenance	97	79	18	23
Miscellaneous fees and services	60	61	(1)	(2)
Remaining other expenses	263	253	10	4
Total other expenses	**$ 650**	**$ 607**	**$ 43**	**7**

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

CASM and Adjusted CASM

CASM and adjusted CASM increased year over year in the first quarter of 2026. The increases reflected higher operating expenses across several categories, including labour, airport and navigation fees, maintenance, sales and distribution, depreciation, amortization and impairment and catering expense. These increases more than offset the benefit of higher capacity year over year.

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

(cents per ASM)	First Quarter			
	2026	2025	$ Change	% Change [1]
CASM	¢ **22.83**	¢ **21.88**	¢ **0.95**	**4.3**
Remove:				
Aircraft fuel expense, ground package costs, freighter costs	(6.72)	(6.61)	(0.11)	1.6
Adjusted CASM	¢ **16.11**	¢ **15.27**	¢ **0.84**	**5.5**

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

Non-Operating Income (Expense)

Non-operating income in the first quarter of 2026 was $6 million, compared to an expense of $59 million in the first quarter of 2025.

Foreign exchange resulted in a $103 million gain in the first quarter of 2026, compared to an $11 million loss in the prior-year period. The variance primarily reflected movements in the Canadian dollar relative to the U.S. dollar during the quarter, including a gain of $232 million on foreign exchange derivatives, which was partially offset by the unfavourable revaluation of U.S. dollar-denominated debt and lease liabilities. The March 31, 2026, closing exchange rate was US$1=$1.39 compared to US$1=$1.37 at December 31, 2025.

Interest income decreased year over year to $56 million, reflecting lower average cash balances and prevailing interest rates compared to the first quarter of 2025.

Interest expense decreased compared to the prior-year period to $159 million, reflecting a combination of scheduled debt repayments, changes in average interest rates, and a favourable foreign exchange variance year over year. The decline was partially offset by higher interest payments on lease liabilities resulting from the fleet additions in the last 12 months.

In the first quarter of 2026, Air Canada recorded a $56 million loss on debt settlements related to the repricing of the term loan B as described in section 7.2 “Net Debt” of this MD&A.

In the first quarter of 2026, Air Canada recorded a gain of $46 million in relation to sale and leaseback transactions completed.

6. FLEET

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

AIR CANADA	Actual			Planned*			
	Dec. 31, 2025	Year to date Changes	March 31, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Wide-body aircraft							
Boeing 777-300ER	19	-	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	32	-	32	-	32	-	32
Boeing 787-10	-	-	-	2	2	5	7
Boeing 767-300 freighters	6	-	6	-	6	-	6
Airbus A330-300	20	-	20	-	20	-	20
Total wide-body aircraft	91	-	91	2	93	5	98
Narrow-body aircraft							
Boeing 737 MAX 8	47	2	49	(49)	-	-	-
Airbus A321XLR	-	-	-	10	10	9	19
Airbus A321	21	-	21	5	26	8	34
Airbus A320	22	-	22	-	22	(3)	19
Airbus A319	1	(1)	-	-	-	-	-
Airbus A220-300	41	1	42	17	59	6	65
Total narrow-body aircraft	132	2	134	(17)	117	20	137
Total Mainline	**223**	**2**	**225**	**(15)**	**210**	**25**	**235**

AIR CANADA rouge	Actual			Planned*			
	Dec. 31, 2025	Year to date Changes	March 31, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Narrow-body aircraft							
Boeing 737 MAX 8*	-	3	3	49	52	-	52
Airbus A321	13	-	13	(5)	8	(8)	-
Airbus A320	5	-	5	(5)	-	-	-
Airbus A319	15	(1)	14	(14)	-	-	-
Total Air Canada Rouge	**33**	**2**	**35**	**25**	**60**	**(8)**	**52**

Total Mainline & Rouge	**256**	**4**	**260**	**10**	**270**	**17**	**287**

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

Air Canada Express

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

AIR CANADA EXPRESS	Actual			Planned			
	Dec. 31, 2025	Year to date Changes	March 31, 2026	Remainder of 2026 Fleet Changes	Dec. 31, 2026	2027 Fleet Changes	Dec. 31, 2027
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-900	31	-	31	(1)	30	-	30
De Havilland Dash 8-400	41	(2)	39	2	41	-	41
Total Air Canada Express	**97**	**(2)**	**95**	**1**	**96**	**-**	**96**

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 twelve months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. In addition, Air Canada monitors its financial leverage as measured by the net debt to adjusted EBITDA ratio, as further described in section 7.2 "Net Debt" of this MD&A. Air Canada also evaluates its liquidity needs including the impact of its working capital position, as discussed in section 7.3 "Working Capital" of this MD&A. Notably, advance ticket sales and the current portion of Aeroplan and other deferred revenues are structural components of the working capital deficiency. These items represent sources of cash from operations that are recognized as revenues and therefore support Air Canada's ongoing liquidity.

At March 31, 2026, total liquidity was $8,798 million comprised of cash and cash equivalents, short-term and long-term investments of $7,441 million, and $1,357 million available under undrawn credit facilities. Cash and cash equivalents included $259 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents and short- and long-term investments. Liquidity needs, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

7.2. NET DEBT

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

(Canadian dollars in millions)	March 31, 2026	December 31, 2025	Change	March 31, 2025
Total long-term debt and lease liabilities	$ 9,009	$ 8,609	$ 400	$ 10,710
Current portion of long-term debt and lease liabilities	3,292	2,967	325	2,016
Total long-term debt and lease liabilities (including current portion)	**12,301**	**11,576**	**725**	**12,726**
Less cash, cash equivalents and short and long-term investments	(7,441)	(6,165)	(1,276)	(8,061)
Net debt [(1)]	**$ 4,860**	**$ 5,411**	**$ (551)**	**$ 4,665**
Adjusted EBITDA (trailing 12 months)	**$ 3,360**	**$ 3,124**	**$ 236**	**$ 3,520**
Net debt to adjusted EBITDA ratio [(1)]	**1.4**	**1.7**	**(0.3)**	**1.3**

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

Net debt to adjusted EBITDA ratio improved to 1.4 at March 31, 2026, compared to 1.7 at December 31, 2025. Liquidity increased in the quarter with net cash flows from operating activities of $1,798 million that was partially offset by the use of $137 million for the purchase of shares for cancellation, as discussed in section 7.8 "Share Information" of this MD&A, and net additions to property, equipment, and intangible assets, as discussed in section 7.4 "Cash Flow Movements" of this MD&A.

In the first quarter of 2026, Air Canada completed sale and leaseback transactions for total proceeds of $283 million which resulted in the recognition of a gain on sale of $46 million.

In January 2026, Air Canada completed a repricing of its US term loan B, reducing the interest rate by 25 basis points, to an interest rate of 1.75% over SOFR (Secured Overnight Financing Rate), and increased the facility by US$200 million to US$1.354 billion. Air Canada recorded a loss of $56 million on debt settlement for the write-off of unamortized deferred items related to this transaction.

7.3. WORKING CAPITAL

The table below provides information on Air Canada's working capital balances as at March 31, 2026, and December 31, 2025.

(Canadian dollars in millions)	March 31, 2026	December 31, 2025	Change
Cash, cash equivalents and short-term investments	$ 6,689	$ 5,525	$ 1,164
Accounts receivable	1,481	1,292	189
Other current assets	1,202	1,099	103
Total current assets	**$ 9,372**	**$ 7,916**	**$ 1,456**
Accounts payable and accrued liabilities	4,383	4,513	(130)
Advance ticket sales	6,177	4,814	1,363
Aeroplan and other deferred revenues	1,785	1,840	(55)
Current portion of long-term debt and lease liabilities	3,292	2,967	325
Total current liabilities	**$ 15,637**	**$ 14,134**	**$ 1,503**
Net working capital	**$ (6,265)**	**$ (6,218)**	**$ (47)**

Net working capital deficiency increased by $47 million to $6,265 million at March 31, 2026 from December 31, 2025. Total current assets increased in the quarter mainly due to higher cash and cash equivalents resulting from the increase in advance ticket sales. The net working capital deficiency also increased due to an increase in the current portion of long-term debt reflecting higher debt repayments due over the next 12 months.

In the first quarter of 2026, Air Canada completed sale and leaseback transactions for total proceeds of $283 million as described in section 7.2 "Net Debt" of this MD&A.

7.4. CASH FLOW MOVEMENTS

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

	First Quarter		
(Canadian dollars in millions)	2026	2025	$ Change
Net cash flows from operating activities	$ 1,798	$ 1,526	$ 272
Net cash flows used in financing activities	(366)	(561)	195
Net cash flows used in investing activities	(184)	(137)	(47)
Effect of exchange rate changes on cash and cash equivalents	11	15	(4)
Increase in cash and cash equivalents	**$ 1,259**	**$ 843**	**$ 416**

Net Cash Flows from Operating Activities

Net cash flows from operating activities of $1,798 million increased by $272 million year-over-year, primarily reflecting the seasonal increase in advance ticket sales ahead of the peak summer season as well as higher adjusted EBITDA year over year.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities of $366 million decreased by $195 million year-over-year, primarily due to lower shares purchased for cancellation compared to the first quarter of 2025.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities of $184 million increased by $47 million year-over-year, reflecting significantly lower proceeds from the disposal of short- and long-term investments, partially offset by lower capital expenditures and proceeds from the sale and leaseback transactions described in section 7.2 "Net Debt" of this MD&A.

Free Cash Flow

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

	First Quarter		
(in millions)	2026	2025	$ Change
Net cash flows from operating activities	**$ 1,798**	**$ 1,526**	**$ 272**
Additions to property, equipment, and intangible assets	(477)	(695)	218
Proceeds from sale and leaseback of assets	283	-	283
Free cash flow [(1)]	**$ 1,604**	**$ 831**	**$ 773**

(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 produced $1,604 million in free cash flow in the first quarter of 2026, a $773 million increase from the same quarter in 2025 due to higher adjusted EBITDA and lower capital expenditures, net of proceeds from sale and leaseback of assets.

7.5. CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS

Airbus A321XLR Aircraft

Air Canada is acquiring 30 extra-long range (XLR) Airbus A321neo aircraft (Airbus A321XLR). The first aircraft was delivered in April 2026 and the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 10 additional aircraft between 2030 and 2032.

Airbus A220-300 Aircraft

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

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

Of the above-mentioned 65 firm orders, 42 were delivered as at March 31, 2026. Deliveries for the 23 remaining firm orders are planned to continue into 2027.

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

Boeing 737 MAX

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

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

Boeing 787-10 Aircraft

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

Airbus A350-1000 Aircraft

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

Heart Aerospace ES-30 Electric Aircraft

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

Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at March 31, 2026 amounted to $13,046 million.

	Remainder of 2026	2027	2028	2029	2030	Thereafter	Total
Committed expenditures	$ 2,462	$ 2,567	$ 1,800	$ 1,510	$ 1,339	$ 3,368	$ 13,046
Projected planned but uncommitted expenditures	470	763	822	982	1,098	not available	Not available
Projected planned but uncommitted capitalized maintenance [1]	496	742	795	888	770	not available	Not available
Total projected expenditures [2]	**$ 3,428**	**$ 4,072**	**$ 3,417**	**$ 3,380**	**$ 3,207**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2029 and beyond are not yet determinable, however estimates of $888 million and $770 million have been made for 2029 and 2030, respectively.

(2) U.S. dollar amounts are converted using the March 31, 2026 closing exchange rate of US$1=C$1.39. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

In the fourth quarter of 2025, Air Canada entered into non-binding letters for up to $2 billion in sale and leaseback transactions expected to close in 2026 and 2027, subject to the execution of definitive and binding agreements and completion of standard conditions precedent. The commitments table presented above does not reflect these transactions. In the first quarter of 2026, Air Canada completed a part of such sale and leaseback transactions for total proceeds of $283 million.

7.6. PENSION FUNDING OBLIGATIONS

At January 1, 2026, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $5.0 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.

Air Canada's pension funding obligations are discussed in section 8.6 "Pension Funding Obligations" of Air Canada's 2025 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

Domestic Registered Pension Plan Assets

As described in Note 9 to the 2025 annual consolidated financial statements, 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 are included in plan assets for determining the net benefit obligation for accounting purposes. 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.

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. In April 2026, the conditions to the completion of the agreement in principle were met, including the conclusion of definitive documentation and the receipt of all required approvals. Therefore, the trust will gradually commence selling shares up to the end of 2037, and the net proceeds from these sales will be used to make lump sum payments to eligible pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees based in Canada. The accounting impact will start being recognized in the second quarter financial statements and is not expected to have any material impact to Air Canada's shareholders' equity as the related expense will be offset by a gain in other comprehensive income.

7.7. CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at March 31, 2026, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(Canadian dollars in millions)	Remainder of 2026	2027	2028	2029	2030	Thereafter	Total
Principal							
Long-term debt [1]	$ 2,107	$ 1,084	$ 1,394	$ 2,320	$ 459	$ 1,931	$ 9,295
Lease liabilities	465	448	394	302	261	1,260	3,130
Total principal obligations	**$ 2,572**	**$ 1,532**	**$ 1,788**	**$ 2,622**	**$ 720**	**$ 3,191**	**$ 12,425**
Interest							
Long-term debt	$ 243	297	238	221	112	58	$ 1,169
Lease liabilities	123	138	114	93	76	336	880
Total interest obligations	**$ 366**	**$ 435**	**$ 352**	**$ 314**	**$ 188**	**$ 394**	**$ 2,049**
Total long-term debt and lease liabilities	**$ 2,938**	**$ 1,967**	**$ 2,140**	**$ 2,936**	**$ 908**	**$ 3,585**	**$ 14,474**
Committed capital expenditures	**$ 2,462**	**$ 2,567**	**$ 1,800**	**$ 1,510**	**$ 1,339**	**$ 3,368**	**$ 13,046**
Total contractual obligations [2]	**$ 5,400**	**$ 4,534**	**$ 3,940**	**$ 4,446**	**$ 2,247**	**$ 6,953**	**$ 27,520**

(1) The full principal balance of $1,273 million for the unsecured credit facility is included expiring in 2028.

(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:

	March 31, 2026	December 31, 2025
Issued and outstanding shares		
Class A variable voting shares	54,668,344	66,330,053
Class B voting shares	232,403,018	228,219,567
Total issued and outstanding shares	**287,071,362**	**294,549,620**
Class A variable voting and Class B voting shares potentially issuable		
Stock options	13,156,643	12,137,096
Total shares potentially issuable	**13,156,643**	**12,137,096**
Total outstanding and potentially issuable shares	**300,228,005**	**306,686,716**

Normal Course Issuer Bid

In the fourth quarter of 2025, the Toronto Stock Exchange (TSX) accepted notice of Air Canada's intention to make a normal course issuer bid (Issuer Bid) allowing it to purchase for cancellation from November 7, 2025 to November 6, 2026, up to 29,557,428 of its shares, being about 10% of the public float of its shares at the time in accordance with TSX rules. 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. The registrar recorded the cancellation of 51,637 of these shares in its books during the first business days of 2026 as a result of administrative delays between purchase and cancellation.

In the first quarter of 2026, Air Canada purchased 7,793,732 shares for cancellation at an average cost of $18.20 per share for aggregate consideration of $142 million. Including purchases made in the fourth quarter of 2025, Air Canada has purchased an aggregate of 9,572,556 shares for cancellation under its existing Issuer Bid.

In connection with the Issuer Bid, Air Canada entered into an automatic share purchase plan (the Plan) with its designated broker under which it may, but is not required to, instruct the broker to make purchases at times when it would ordinarily not be active in the market due to regulatory restrictions, self-imposed blackout periods or otherwise. Purchases by the designated broker made under the Plan, if any, are based on parameters established by Air Canada in accordance with the rules of the TSX, applicable securities laws and the terms of the Plan.

8. QUARTERLY FINANCIAL DATA

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

(Canadian dollars in millions, except per share figures)	2024			2025				2026
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	$ 5,519	$ 6,106	$ 5,404	$ 5,196	$ 5,632	$ 5,774	$ 5,770	$ 5,785
Operating expenses	5,053	5,066	5,658	5,304	5,214	5,490	5,446	5,668
Operating income (loss)	**466**	**1,040**	**(254)**	**(108)**	**418**	**284**	**324**	**117**
Non-operating income (expense)	**(62)**	**(143)**	**(467)**	**(59)**	**(315)**	**227**	**18**	**6**
Income (loss) before income taxes	**404**	**897**	**(721)**	**(167)**	**103**	**511**	**342**	**123**
Income tax recovery (expense)	6	1,138	77	65	83	(247)	(46)	(75)
Net income (loss)	**$ 410**	**$ 2,035**	**$ (644)**	**$ (102)**	**$ 186**	**$ 264**	**$ 296**	**$ 48**
Basic earnings (loss) per share	**$ 1.14**	**$ 5.68**	**$ (1.81)**	**$ (0.31)**	**$ 0.58**	**$ 0.89**	**$ 1.00**	**$ 0.16**
Diluted earnings (loss) per share	**$ 1.04**	**$ 5.38**	**$ (1.81)**	**$ (0.40)**	**$ 0.51**	**$ 0.88**	**$ 1.00**	**$ 0.16**
Adjusted EBITDA [1]	**$ 914**	**$ 1,523**	**$ 696**	**$ 387**	**$ 909**	**$ 961**	**$ 867**	**$ 623**
Adjusted pre-tax income (loss) [1]	**$ 371**	**$ 985**	**$ 135**	**$ (215)**	**$ 300**	**$ 329**	**$ 244**	**$ 18**
Adjusted net income (loss) [1]	**$ 369**	**$ 969**	**$ 93**	**$ (150)**	**$ 207**	**$ 223**	**$ 191**	**$ (16)**
Adjusted earnings (loss) per share – diluted [1]	**$ 0.98**	**$ 2.57**	**$ 0.25**	**$ (0.45)**	**$ 0.60**	**$ 0.75**	**$ 0.65**	**$ (0.05)**

(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 2025 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 8 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2026.

Fuel Price Risk Management

In the first quarter of 2026, jet fuel swap derivative contracts cash settled with a fair value of $38 million in favour of Air Canada, with a hedging gain of $38 million recorded in Aircraft fuel expense. As at March 31, 2026, jet fuel swap derivatives with a fair value of $241 million in favour of Air Canada were outstanding, covering approximately 23% of the anticipated purchases of jet fuel for the second quarter of 2026 at an average jet fuel price of US$0.51 per litre.

Foreign Exchange Risk Management

In the first quarter of 2026, Air Canada reduced its target foreign currency derivative coverage from 70% to 60% on a rolling 18-month basis to manage its net U.S. dollar cash flow exposure. As at March 31, 2026, Air Canada had outstanding foreign currency options and swap agreements, settling in 2026 and 2027, to purchase at maturity $7,753 million (US$5,568 million) of U.S. dollars at a weighted average rate of $1.3607 per $1.00 U.S. dollar (as at December 31, 2025 – $8,913 million (US$6,495 million) with settlements in 2026 and 2027 at a weighted average rate of $1.3648 per $1.00 U.S. dollar).

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 March 31, 2026 was $11 million in favour of Air Canada (as at December 31, 2025 – $243 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During the first quarter of 2026, foreign exchange gain (loss) related to these derivatives was $232 million gain ($5 million gain in the first quarter of 2025). In the first quarter of 2026, foreign exchange derivative contracts cash settled with a net fair value of $22 million in favour of the counterparties ($58 million in the first quarter of 2025 in favour of Air Canada).

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2025 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2025 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Air Canada adopted the amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures which became effective for annual reporting periods beginning on or after January 1, 2026. There was no material impact to Air Canada's consolidated statement of financial position as of January 1, 2026 adoption. 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 first quarter of 2026.

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 2025 MD&A. There have been no material changes to critical accounting estimates and judgments from what was disclosed at that time.

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 2025 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

At March 31, 2026, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements and sponsorship and management services for a number of post-retirement plans which are related parties. Refer to Notes 9 and 21 of Air Canada's audited consolidated financial statements and notes for 2025, for additional information on these plans.

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 2025 MD&A. Also refer to section 4 "Overview – Conflict in the Middle East" of this MD&A for an update on the impact of the conflict on the supply and cost of aircraft fuel. There have been no material changes to Air Canada's risk factors from what was disclosed in the 2025 MD&A.

15. CONTROLS AND PROCEDURES

Air Canada's controls and procedures are summarized in section 19 "Controls and Procedures" of Air Canada's 2025 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 Air Canada believes these may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and their exclusion generally allows for a more meaningful analysis of Air Canada's operating expense performance and may allow for a more meaningful comparison to other airlines.

Air Canada excludes the effect of impairment of assets, if any, when calculating adjusted CASM, adjusted EBITDA, adjusted EBITDA margin, adjusted pre-tax income (loss) and adjusted net income (loss) as it may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful. Air Canada did not record charges for impairment of assets in the first quarter of 2026 or in 2025.

Adjusted CASM

Air Canada uses adjusted CASM to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, freighter costs and other items. 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 March 31, 2026 and as at March 31, 2025. 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)	First Quarter		
	2026	2025	Change
Operating expense – GAAP	**$ 5,668**	**$ 5,304**	**$ 364**
Adjusted for:			
Aircraft fuel	(1,194)	(1,186)	(8)
Ground package costs	(432)	(373)	(59)
Freighter costs (excluding fuel)	(42)	(42)	-
Operating expense, adjusted for the above-noted items	**$ 4,000**	**$ 3,703**	**$ 297**
ASMs (millions)	**24,829**	**24,240**	**2.4%**
Adjusted CASM (cents)	**¢ 16.11**	**¢ 15.27**	**¢ 0.84**

Adjusted EBITDA and Adjusted EBITDA Margin

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

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

	First Quarter		
(Canadian dollars in millions, except where indicated)	**2026**	**2025**	**Change**
Operating income (loss) – GAAP	**$ 117**	**$ (108)**	**$ 225**
Add back:			
Depreciation, amortization and impairment	506	495	11
Adjusted EBITDA	**$ 623**	**$ 387**	**$ 236**
Operating revenues	**$ 5,785**	**$ 5,196**	**$ 589**
Operating margin (%)	**2.0**	**(2.1)**	**4.1 pp**
Adjusted EBITDA margin (%)	**10.8**	**7.4**	**3.4 pp**

	Twelve-months ended		
(Canadian dollars in millions)	**March 31, 2026**	**December 31, 2025**	**March 31, 2025**
Operating income (loss) – GAAP	**$ 1,143**	**$ 918**	**$ 1,144**
Add back:			
Depreciation, amortization and impairment	2,023	2,012	1,852
Provision for contractual lease obligations	-	-	34
Pension plan amendments and other labour-related charges	194	194	490
Adjusted EBITDA	**$ 3,360**	**$ 3,124**	**$ 3,520**

Adjusted Pre-tax Income (Loss)

Adjusted pre-tax income (loss) is used by Air Canada to assess the overall pre-tax financial performance of its business without the effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on disposal of assets, gains or losses on debt settlements and modifications and other items. 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:

	First Quarter		
(Canadian dollars in millions)	2026	2025	$ Change
Income (loss) before income taxes – GAAP	$ 123	$ (167)	$ 290
Adjusted for:			
Foreign exchange (gain) loss	(103)	11	(114)
Net interest relating to employee benefits	(9)	(5)	(4)
Gain on financial instruments recorded at fair value	(3)	(54)	51
Loss on debt settlements	56	-	56
Gain on sale and leaseback of assets	(46)	-	(46)
Adjusted pre-tax income (loss)	**$ 18**	**$ (215)**	**$ 233**

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

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

	First Quarter		
(in millions, except per share figures)	2026	2025	$ Change
Net income (loss) – GAAP	**$ 48**	**$ (102)**	**$ 150**
Adjusted for:			
Foreign exchange (gain) loss	(103)	11	(114)
Net interest relating to employee benefits	(9)	(5)	(4)
Gain on financial instruments recorded at fair value	(3)	(54)	51
Loss on debt settlements	56	-	56
Gain on sale and leaseback of assets	(46)	-	(46)
Income tax, including for the above reconciling items	41	-	41
Adjusted net loss	**$ (16)**	**$ (150)**	**$ 134**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	294	330	(36)
Adjusted loss per share – diluted	**$ (0.05)**	**$ (0.45)**	**$ 0.40**

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)	First Quarter	
	2026	2025
Weighted average number of shares outstanding – basic	**294**	**330**
Effect of dilution	-	-
Weighted average number of shares outstanding – diluted	**294**	**330**

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, freighter costs and impairment of assets, if any. Adjusted CASM is a non-GAAP ratio, 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. When calculating adjusted EBITDA, Air Canada excludes impairment of assets, if any. 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. Adjusted EBITDA margin is a non-GAAP ratio, 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, gains or losses on disposal of assets and impairment of assets, if any. Adjusted net income (loss) is a non-GAAP financial measure, refer to section 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, gains or losses on disposal of assets and impairment of assets, if any. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Aeroplan – Refers to Aeroplan Inc.

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

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

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

CASM – Refers to operating expense per ASM.

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

Free cash flow – Refers to net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow is a non-GAAP financial measure. Refer to sections 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.

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

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

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

Yield – Refers to average passenger revenue per RPM.