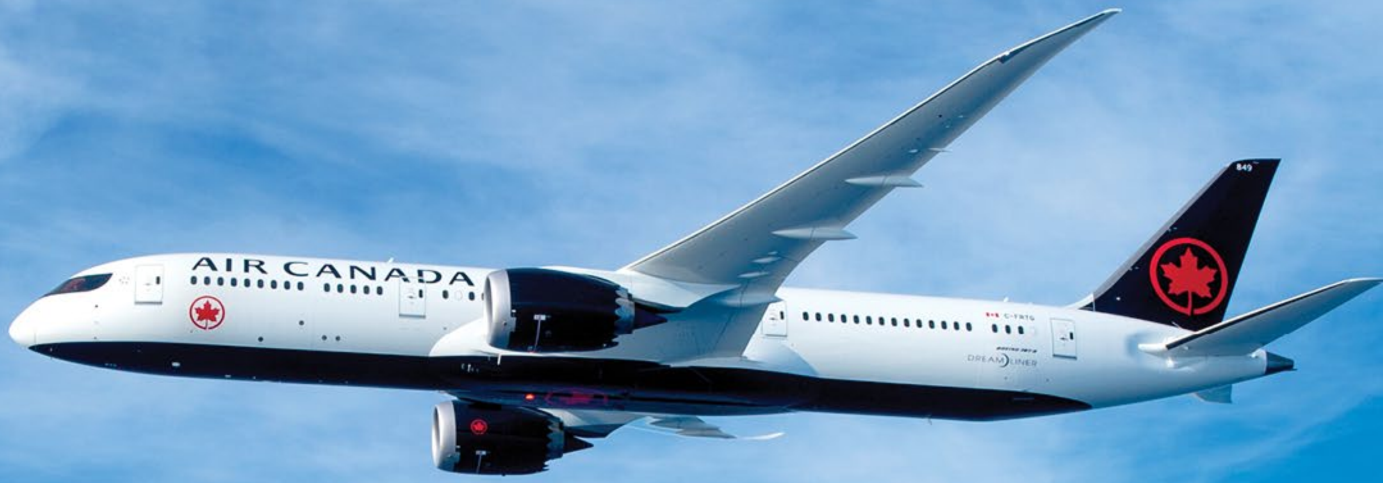

Second Quarter 2024

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

AIR CANADA

A STAR ALLIANCE MEMBER

August 7, 2024

TABLE OF CONTENTS

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)	Second Quarter			First Six Months		
Financial Performance Metrics	**2024**	**2023**	**$ Change**	**2024**	**2023**	**$ Change**
Operating revenues	5,519	5,427	92	10,745	10,314	431
Operating income	466	802	(336)	477	785	(308)
Operating margin [(1)] (%)	8.4	14.8	(6.4) pp [(8)]	4.4	7.6	(3.2) pp
Adjusted EBITDA [(2)]	914	1,220	(306)	1,367	1,631	(264)
Adjusted EBITDA margin [(2)] (%)	16.6	22.5	(5.9) pp	12.7	15.8	(3.1) pp
Income before income taxes	404	796	(392)	339	773	(434)
Net income	410	838	(428)	329	842	(513)
Adjusted pre-tax income [(2)]	371	656	(285)	277	462	(185)
Adjusted net income [(2)]	369	664	(295)	273	476	(203)
Total liquidity [(3)]	10,203	10,551	(348)	10,203	10,551	(348)
Net cash flows from operating activities	924	1,490	(566)	2,516	2,927	(411)
Free cash flow [(2)]	451	965	(514)	1,507	1,952	(445)
Net debt [(2)]	3,608	5,330	(1,722)	3,608	5,330	(1,722)
Diluted earnings per share	1.04	2.34	(1.30)	0.87	2.35	(1.48)
Adjusted earnings per share – diluted [(2)]	0.98	1.85	(0.87)	0.73	1.33	(0.60)
Operating Statistics [(4)]	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Revenue passenger miles (RPMs) (millions)	22,449	21,617	3.8	42,969	40,195	6.9
Available seat miles (ASMs) (millions)	26,203	24,606	6.5	50,540	46,513	8.7
Passenger load factor %	85.7%	87.9%	(2.2) pp	85.0%	86.4%	(1.4) pp
Passenger revenue per RPM (Yield) (cents)	22.2	22.7	(2.0)	22.0	22.4	(2.0)
Passenger revenue per ASM (PRASM) (cents)	19.0	19.9	(4.4)	18.7	19.3	(3.4)
Operating revenue per ASM (TRASM) (cents)	21.1	22.1	(4.5)	21.3	22.2	(4.1)
Operating expense per ASM (CASM) (cents)	19.3	18.8	2.6	20.3	20.5	(0.8)
Adjusted CASM (cents) [(2)]	13.5	13.3	1.7	14.1	13.9	1.8
Average number of full-time-equivalent (FTE) employees (thousands) [(5)]	37.2	35.9	3.5	37.1	35.2	5.3
Aircraft in operating fleet at period-end	356	354	0.6	356	354	0.6
Seats dispatched (thousands)	14,213	13,390	6.1	27,692	25,683	7.8
Aircraft frequencies (thousands)	97.9	93.5	4.7	188.9	178.7	5.7
Average stage length (miles) [(6)]	1,844	1,838	0.3	1,825	1,811	0.8
Fuel cost per litre (cents)	104.3	101.1	3.2	104.9	114.2	(8.2)
Fuel litres (thousands)	1,273,467	1,162,714	9.5	2,458,185	2,229,799	10.2
Revenue passengers carried (thousands) [(7)]	11,588	11,287	2.7	22,339	21,256	5.1

(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 June 30, 2024, of $10,203 million consisted of $8,869 million in cash, cash equivalents, short- and long-term

investments and $1,334 million available under undrawn credit facilities. As at June 30, 2023, total liquidity of $10,551 million consisted of $9,556 million in cash, cash equivalents, short- and long-term investments, and $995 million available under undrawn credit facilities. Total liquidity also includes funds ($181 million as at June 30, 2024, and $189 million as at June 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 second 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 second quarter of 2024 dated August 7, 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 August 6, 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 August 7, 2024, reporting on its results for the second quarter of 2024. This news release is available on Air Canada's website at **aircanada.com** and on the SEDAR+ website at **www.sedarplus.ca**. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at **www.sedarplus.ca**.

Caution Regarding Forward-Looking Information

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

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

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic conditions 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 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 and 2050 carbon emission-related targets 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$1.03 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 second quarter of 2024, Air Canada saw a 2% increase in operating revenues compared to the same quarter in 2023 on a capacity increase of 6.5%, approaching the about 7% increase projected in Air Canada's May 2, 2024 news release. The year-over-year revenue growth was inhibited by the traffic and yield decline in the Atlantic and Central and South American markets, as well as by the two-percentage-point decrease in system passenger load factor.

Operating income and adjusted EBITDA declined year over year as operating expenses grew 9% with fuel, labour, maintenance and information technology expenses representing a significant portion of the increase. Refer to section 5 "Results of operations" for additional information on factors impacting the year-over-year variances.

Second Quarter 2024 Financial Summary

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

- Operating revenues of $5,519 million increased $92 million or 2%, driven by the growth in passenger revenues.
- Operating expenses of $5,053 million increased $428 million or 9%. The increase was due to higher costs in nearly all line items, most notably in fuel, labour and maintenance expenses, mainly reflecting higher operated capacity and traffic year over year.
- Operating income of $466 million, with an operating margin of 8.4%, declined $336 million.
- Adjusted EBITDA of $914 million, with an adjusted EBITDA margin of 16.6%, declined $306 million.
- Net income of $410 million and diluted earnings per share of $1.04 compared to $838 million and $2.34 per diluted share, respectively.
- Adjusted net income of $369 million and adjusted earnings per diluted share of $0.98, compared to $664 million and $1.85 per diluted share, respectively.
- Adjusted CASM of 13.53 cents increased 1.7%, driven by labour, maintenance and information technology expenses increasing at a higher rate than capacity.
- Net cash flows from operating activities of $924 million decreased $566 million.
- Free cash flow of $451 million decreased $514 million.
- Net debt-to-adjusted EBITDA ratio was 1.0 at June 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)	Second Quarter				First Six Months			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
Operating revenues								
Passenger	$ 4,990	$ 4,901	89	2	$ 9,433	$ 8,989	444	5
Cargo	230	227	3	1	445	465	(20)	(4)
Other	299	299	-	-	867	860	7	1
Total operating revenues	**5,519**	**5,427**	**92**	**2**	**10,745**	**10,314**	**431**	**4**
Operating expenses								
Aircraft fuel	1,333	1,187	146	12	2,587	2,562	25	1
Wages, salaries and benefits	1,071	971	100	10	2,179	1,885	294	16
Depreciation and amortization	448	418	30	7	890	846	44	5
Airport and navigation fees	372	364	8	2	720	676	44	7
Sales and distribution costs	269	264	5	2	535	537	(2)	-
Capacity purchase fees	217	201	16	8	425	417	8	2
Aircraft maintenance	335	275	60	22	650	536	114	21
Ground package costs	137	126	11	9	472	444	28	6
Communications and information technology	145	128	17	13	331	274	57	21
Catering and onboard services	154	158	(4)	(3)	309	286	23	8
Other	572	533	39	7	1,170	1,066	104	10
Total operating expenses	**5,053**	**4,625**	**428**	**9**	**10,268**	**9,529**	**739**	**8**
Operating income	**466**	**802**	**(336)**		**477**	**785**	**(308)**	
Non-operating income (expense)								
Foreign exchange gain (loss)	(2)	251	(253)		57	378	(321)	
Interest income	97	106	(9)		222	189	33	
Interest expense	(182)	(241)	59		(399)	(486)	87	
Interest capitalized	8	6	2		15	11	4	
Financial instruments recorded at fair value	29	(115)	144		40	(77)	117	
Loss on debt settlements	-	(2)	2		(46)	(2)	(44)	
Other	(12)	(11)	(1)		(27)	(25)	(2)	
Total non-operating expense	**(62)**	**(6)**	**(56)**		**(138)**	**(12)**	**(126)**	
Income before income taxes	**404**	**796**	**(392)**		**339**	**773**	**(434)**	
Income tax recovery (expense)	6	42	(36)		(10)	69	(79)	
Net income	**$ 410**	**$ 838**	**$ (428)**		**$ 329**	**$ 842**	**$ (513)**	
Basic earnings per share	**$ 1.14**	**$ 2.34**	**$ (1.20)**		**$ 0.92**	**$ 2.35**	**$ (1.43)**	
Diluted earnings per share	**$ 1.04**	**$ 2.34**	**$ (1.30)**		**$ 0.87**	**$ 2.35**	**$ (1.48)**	
Adjusted EBITDA (1)	**$ 914**	**$ 1,220**	**$ (306)**		**$ 1,367**	**$ 1,631**	**$ (264)**	
Adjusted pre-tax income (1)	**$ 371**	**$ 656**	**$ (285)**		**$ 277**	**$ 462**	**$ (185)**	
Adjusted net income (1)	**$ 369**	**$ 664**	**$ (295)**		**$ 273**	**$ 476**	**$ (203)**	
Adjusted earnings per share (1)	**$ 0.98**	**$ 1.85**	**$ (0.87)**		**$ 0.73**	**$ 1.33**	**$ (0.60)**	

(1) 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 second quarter of 2024, passenger revenues of $4,990 million increased $89 million or about 2% from the second quarter of 2023. The year-over-year increase was supported by higher capacity and traffic in the Pacific and North America markets, as well as by yield expansion in North America. The revenue growth was limited by load factors and yields declining in the Atlantic and Central and South America markets and increased competition in the Atlantic market.

In the first six months of 2024, passenger revenues of $9,433 million increased $444 million or 5% driven by higher capacity and traffic in the Pacific and North American markets and North American yield expansion, partially offset by lower yield year over year in international markets, most notably in the Atlantic and Central and South America markets.

Demand for premium products remained strong with the year-over-year percentage change in premium cabin revenues outpacing the growth rate in economy cabin revenues by about two percentage points. The increase in premium cabin revenues represented more than 60% of the total passenger revenues increase.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2024	2023	$ Change	% Change (1)	2024	2023	$ Change	% Change (1)
Canada	$ 1,336	$ 1,282	$ 54	4.2	$ 2,457	$ 2,346	$ 111	4.7
U.S. transborder	1,080	1,037	43	4.2	2,119	2,003	116	5.8
Atlantic	1,563	1,665	(102)	(6.1)	2,538	2,589	(51)	(2.0)
Pacific	701	573	128	22.3	1,372	1,065	307	28.8
Other	310	344	(34)	(9.8)	947	986	(39)	(4.0)
System	**$ 4,990**	**$ 4,901**	**$ 89**	**1.8**	**$ 9,433**	**$ 8,989**	**$ 444**	**4.9**

(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.

	Second Quarter 2024 versus Second Quarter 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	4.2	1.3	0.7	(0.5)	3.5	2.9
U.S. transborder	4.2	7.2	3.6	(2.9)	0.5	(2.9)
Atlantic	(6.1)	2.9	(1.5)	(3.8)	(4.7)	(8.7)
Pacific	22.3	32.4	29.6	(2.0)	(5.6)	(7.7)
Other	(9.8)	(4.4)	(4.7)	(0.3)	(5.3)	(5.7)
System	**1.8**	**6.5**	**3.8**	**(2.2)**	**(2.0)**	**(4.4)**

	First Six Months 2024 versus First Six Months 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	4.7	1.8	1.2	(0.5)	3.5	2.8
U.S. transborder	5.8	6.8	4.7	(1.7)	1.0	(1.0)
Atlantic	(2.0)	6.5	3.3	(2.7)	(5.1)	(8.0)
Pacific	28.8	35.3	32.9	(1.7)	(3.0)	(4.8)
Other	(4.0)	0.2	(0.2)	(0.3)	(3.8)	(4.1)
System	**4.9**	**8.7**	**6.9**	**(1.4)**	**(2.0)**	**(3.4)**

Domestic Passenger Revenues

In the second quarter and in the first six months of 2024, Domestic passenger revenues increased $54 million or 4% and $111 million or 5%, respectively. The increases were driven by higher yields and increased capacity in the regional network. These results reflect good demand for air travel within a highly competitive marketplace.

U.S. Transborder Passenger Revenues

In the second quarter and in the first six months of 2024, U.S. transborder passenger increased $43 million or 4% and $116 or 6%, respectively. The increases were driven by higher capacity in most transborder markets as well as higher yields on certain transborder routes, limited by lower load factors. New, restored and increased U.S. transborder services drove the capacity increase, expanding connection opportunities with Air Canada's international network and supporting Air Canada's sixth freedom traffic strategy.

Atlantic Passenger Revenues

In the second quarter and in the first six months of 2024, Atlantic passenger revenues declined $102 million or 6% and $51 million or 2%, respectively. The results were impacted by lower load factors and yields through the Atlantic network mainly due to increased capacity and competitive pressures in the market and, to a lesser extent, the continued suspension of Air Canada's flights to Tel Aviv (since October 2023).

Pacific Passenger Revenues

In the second quarter and in the first six months of 2024, Pacific passenger revenues increased $128 million or 22% and $307 million or 29%, respectively. The increases were driven by increased capacity due to the restoration of services to Asia Pacific regions (except for China), 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 second quarter and in the first six months of 2024, Other passenger revenues declined $34 million or 10% and $39 million or 4%, respectively. The declines were driven by lower capacity into South America and lower yields in Central America and the Caribbean.

Cargo Revenues

In the second quarter of 2024, Cargo revenues increased $3 million or 1% from the second quarter of 2023. The increase was primarily due to higher volume of chargeable kilos of cargo in passenger aircraft in most markets and higher freighter revenues in the Americas. The increase was partially offset by lower yield per kilo in most markets and by lower freighter operations in the Atlantic market year over year.

In the first six months of 2024, Cargo revenues declined $20 million or 4% year over year, driven by lower yields in the Atlantic market. This was partially offset by higher revenues in the Pacific — aligned with the year-over-year capacity increase in that region.

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

(Canadian dollars in millions)	Second Quarter				First Six Months			
	2024	2023	$ Change	% Change (1)	2024	2023	$ Change	% Change (1)
Canada	$ 23	$ 23	$ -	-	$ 48	$ 47	$ 1	1.9
U.S. transborder	14	11	3	19.5	26	22	4	15.4
Atlantic	89	109	(20)	(18.6)	173	228	(55)	(23.9)
Pacific	71	54	17	32.8	133	103	30	29.4
Other	33	30	3	7.5	65	65	-	-
System	**$ 230**	**$ 227**	**$ 3**	**1.0**	**$ 445**	**$ 465**	**$ (20)**	**(4.3)**

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

Other Revenues

Compared to the same periods in 2023, other revenues were flat in the second quarter of 2024 and increased $7 million or 1% in the first six months of 2024. The performance was driven by higher ground package revenues at Air Canada Vacations and higher incidental revenues related to higher traffic. This was partially offset by lower miscellaneous charges and lower on-board revenues, the latter due to the temporary suspension of the on-board sales because of a work stoppage at one catering supplier.

Operating Expenses

In the second quarter and in the first six months of 2024, operating expenses increased $428 million or 9% and $739 million or 8%, respectively, from the same period in 2023. The increases were primarily due to increased labour, maintenance and information technology expenses, as well as to increases in most of the remaining line items resulting from increased capacity and traffic year over year.

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

<u>Aircraft Fuel</u>

Aircraft fuel expense increased 12% in the second quarter of 2024 primarily due to more flying activity and, to a lesser extent, the 3% increase in jet fuel costs. This fuel cost increase included a $25 million loss from fuel hedges recorded in the second quarter of 2024 and an unfavourable foreign exchange variance that more than offset the decline in base price.

In the first six months of 2024, aircraft fuel expense increased 1% as the impact of 10% more litres of jet fuel used was essentially offset by jet fuel costs declining 8% year over year.

Wages, Salaries and Benefits

Wages, salaries and benefits expense increased 10% in the second quarter of 2024 and 16% in the first six months of 2024. These increases were primarily due to accruals for wage-related initiatives and the year-over-year increase in employees to support the capacity growth.

Aircraft Maintenance

Aircraft maintenance expense increased 22% in the second quarter of 2024 and 21% in the first six months of 2024. The increases were primarily due to 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.

Communications and Information Technology

Communications and information technology expense increased 13% in the second quarter of 2024 and 21% in the first six 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 second quarter and in the first six months of 2024, other operating expenses increased 7% and 10%, respectively, primarily driven by increased flying activity year over year.

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)	Second Quarter				First Six Months			
	2024	2023	$ Change	% Change (1)	2024	2023	$ Change	% Change (1)
Terminal handling	$ 133	$ 121	$ 12	10	$ 264	$ 233	$ 31	13
Crew cycle	75	63	12	19	142	123	19	15
Building rent and maintenance	79	72	7	10	161	141	20	14
Miscellaneous fees and services	52	53	(1)	(2)	110	108	2	2
Remaining other expenses	233	224	9	4	493	461	32	7
Total other expenses	**$ 572**	**$ 533**	**$ 39**	**7**	**$ 1,170**	**$ 1,066**	**$ 104**	**10**

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

CASM and Adjusted CASM

In the second quarter of 2024, CASM and adjusted CASM increased 2.6% and 1.7%, respectively, from the second quarter of 2023. The increases were primarily due to the year-over-year increases in maintenance, labour and information technology expenses. The year-over-year increase in aircraft fuel expense also impacted CASM unfavourably. This was partially offset by the increase in capacity.

In the first six months of 2024, CASM declined 0.8% while adjusted CASM increased 1.8% from the same period in 2023. The CASM decline was due to lower aircraft fuel expense and to the year-over-year increase in capacity; this was partially offset by increased labour, maintenance and information technology expenses. The adjusted CASM increase reflected higher labour, maintenance and information technology expenses year over year; this was partially offset by the capacity increase.

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

(Cents per ASM)	Second Quarter				First Six Months			
	2024	2023	¢ Change	% Change (1)	2024	2023	¢ Change	% Change (1)
CASM	**¢ 19.28**	**¢ 18.80**	**¢ 0.48**	**2.6**	**¢ 20.32**	**¢ 20.49**	**¢ (0.17)**	**(0.8)**
Remove:								
Aircraft fuel expense, ground package costs and freighter costs	(5.75)	(5.50)	(0.25)	4.5	(6.20)	(6.62)	0.42	(6.2)
Adjusted CASM	**¢ 13.53**	**¢ 13.30**	**¢ 0.23**	**1.7**	**¢ 14.12**	**¢ 13.87**	**¢ 0.25**	**1.8**

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

Non-Operating Expense

In the second quarter and first six months of 2024, non-operating expenses totalled $62 million and $138 million, respectively, compared to non-operating expenses of $6 million and $12 million in the second quarter and first six months of 2023.

Foreign exchange loss amounted to $2 million in the second quarter of 2024 and a gain of $57 million in the first six months of 2024. The June 30, 2024, closing exchange rate was US$1=1.3679 compared to US$1=$1.3540 at March 31, 2024, and US$1=1.3243 at December 31, 2023. This compared to gains of $251 million and $378 million in the second quarter and first six months of 2023. In the second quarter of 2024, Air Canada's foreign currency derivatives recorded gains of $99 million ($389 million gain for the first six months of 2024). This compared to gains of $21 million and $101 million in the second quarter and first six months of 2023, respectively. In the second quarter of 2024, derivative contracts cash settled with a net fair value of $73 million in favour of Air Canada ($132 million in the first six months of 2024). This compared to $37 million and $80 million in favour of Air Canada in the second quarter and first six months of 2023, respectively.

Interest expense of $182 million and $399 million in the second quarter and first six months of 2024, decreased $59 million and $87 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.

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.

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.

AIR CANADA	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	June 30, 2024	Remainder of 2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025
Wide-body aircraft							
Boeing 777-300ER	19	-	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	30	1	31	-	31	1	32
Boeing 767-300ER	-	-	-	-	-	2	2
Boeing 767-300 freighters (1)	7	(1)	6	-	6	-	6
Airbus A330-300	18	2	20	-	20	-	20
Total wide-body aircraft	88	2	90	-	90	3	93
Narrow-body aircraft							
Boeing 737 MAX 8	40	1	41	5	46	7	53
Airbus A321XLR	-	-	-	-	-	3	3
Airbus A321	16	1	17	-	17	-	17
Airbus A320	19	5	24	(2)	22	-	22
Airbus A319	7	-	7	(2)	5	-	5
Airbus A220-300	33	-	33	2	35	9	44
Total narrow-body aircraft	115	7	122	3	125	19	144
Total Mainline	**203**	**9**	**212**	**3**	**215**	**22**	**237**

AIR CANADA rouge	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	June 30, 2024	Remainder of 2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025
Narrow-body aircraft							
Airbus A321	17	-	17	-	17	-	17
Airbus A320	5	-	5	-	5	-	5
Airbus A319	18	-	18	-	18	-	18
Total Air Canada Rouge	**40**	**-**	**40**	**-**	**40**	**-**	**40**

Total Mainline & Rouge	**243**	**9**	**252**	**3**	**255**	**22**	**277**

(1) Excluded from the operating fleet at June 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.

AIR CANADA EXPRESS	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	June 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 (1)	15	(15)	-	-	-	-	-
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-400	43	1	44	1	45	(8)	37
Total Air Canada Express	**118**	**(14)**	**104**	**1**	**105**	**(8)**	**97**

(1) Excluded from the operating fleet at June 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 June 30, 2024, total liquidity was $10,203 million comprising cash and cash equivalents, short-term and long-term investments of $8,869 million, and $1,334 million available under undrawn credit facilities. Cash and cash equivalents included $181 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)	June 30, 2024	December 31, 2023	$ Change
Total long-term debt and lease liabilities	$ 10,858	$ 12,996	$ (2,138)
Current portion of long-term debt and lease liabilities	1,619	866	753
Total long-term debt and lease liabilities (including current portion)	**12,477**	**13,862**	**(1,385)**
Less cash, cash equivalents and short- and long-term investments	(8,869)	(9,295)	426
Net debt (1)	**$ 3,608**	**$ 4,567**	**$ (959)**
Adjusted EBITDA (trailing 12 months)	**$ 3,718**	**3,982**	**(264)**
Net debt to adjusted EBITDA ratio (1)	**1.0**	**1.1**	**(0.1)**

(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 June 30, 2024, an improvement from the ratio of 1.1 at December 31, 2023. This was mainly due to the reduction in net debt achieved in the first quarter of 2024, which was supported by the free cash flow generated in the first six months of 2024. 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 existing US$600 million revolving credit facility previously maturing in 2025, is undrawn as of June 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)	June 30, 2024	December 31, 2023	$ Change
Cash, cash equivalents and short-term investments	$ 8,132	$ 8,551	$ (419)
Accounts receivable	1,264	1,121	143
Other current assets	835	588	247
Total current assets	**$ 10,231**	**$ 10,260**	**$ (29)**
Accounts payable and accrued liabilities	3,538	3,328	210
Advance ticket sales	5,383	4,341	1,042
Aeroplan and other deferred revenues	1,534	1,473	61
Current portion of long-term debt and lease liabilities	1,619	866	753
Total current liabilities	**$ 12,074**	**$ 10,008**	**$ 2,066**
Net working capital	**$ (1,843)**	**$ 252**	**$ (2,095)**

Net working capital deficiency of $1,843 million at June 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.

7.4 CASH FLOW MOVEMENTS

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

	Second Quarter			First Six Months		
(Canadian dollars in millions)	**2024**	**2023**	**$ Change**	**2024**	**2023**	**$ Change**
Net cash flows from operating activities	$ 924	$ 1,490	$ (566)	$ 2,516	$ 2,927	$ (411)
Net cash flows used in financing activities	$ (235)	$ (935)	$ 700	$ (1,940)	$ (1,227)	$ (713)
Net cash flows used in investing activities	$ (385)	$ (718)	$ 333	$ (378)	$ (1,467)	$ 1,089
Effect of exchange rate changes on cash and cash equivalents	1	(1)	$ 2	6	-	$ 6
Increase (decrease) in cash and cash equivalents	**$ 305**	**$ (164)**	**$ 469**	**$ 204**	**$ 233**	**$ (29)**

Net Cash Flows from Operating Activities

Net cash flows from operating activities were positive in the second quarter and first six months of 2024 but decreased compared to the same period in 2023. The decreases were driven by declines in operating results and cash from working capital, the latter, primarily due to lower advance ticket sales.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities amounted to $235 million in the second quarter and $1,940 million in the first six months of 2024. By comparison to the prior year, the second quarter of 2023 included $650 million in prepayment of loans, which had been used to finance the acquisition of 19 Airbus A220-300 aircraft. The increase in the first six 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 $385 million in the second quarter and $378 million in the first six months of 2024. The decrease in 2024 investing activities, as compared to 2023, is mainly due to the disposal of cash-based investments as part of reducing gross debt. The first six months of 2024 included net proceeds of $640 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 $1,009 million in the first six months of 2024, compared to $975 million in the first six months of 2023, and included the delivery of one Boeing 787-9 aircraft.

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.

	Second Quarter			First Six Months		
(Canadian dollars in millions)	**2024**	**2023**	**$ Change**	**2024**	**2023**	**$ Change**
Net cash flows from operating activities	**$ 924**	**$ 1,490**	**$ (566)**	**$ 2,516**	**$ 2,927**	**$ (411)**
Additions to property, equipment, and intangible assets	(473)	(525)	52	(1,009)	(975)	(34)
Free cash flow (1)	**$ 451**	**$ 965**	**$ (514)**	**$ 1,507**	**$ 1,952**	**$ (445)**

(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.

Free cash flow was lower than the 2023 comparative periods driven by lower net cash flows from operating activities on lower operating results.

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 third 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 2027 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 second half of 2024 and continue into 2027.

Boeing 737 MAX

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

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

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 June 30, 2024, amounted to $13,171 million.

(in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
Committed expenditures	$ 870	$ 2,574	$ 3,600	$ 2,917	$ 715	$ 2,495	$ 13,171
Projected planned but uncommitted expenditures	77	247	463	364	435	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	330	725	627	453	453	Not available	Not available
Total projected expenditures (2)	**$ 1,277**	**$ 3,546**	**$ 4,690**	**$ 3,734**	**$ 1,603**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2027 and beyond are not yet determinable, however, estimates of $453 million have been made for each of 2027 and 2028.

(2) U.S. dollar amounts are converted using the June 30, 2024, closing exchange rate of US$1=C$1.3679. 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.

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 June 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
Principal							
Long-term debt [1]	$ 177	$ 1,112	$ 2,397	$ 1,036	$ 1,362	$ 4,181	$ 10,265
Lease liabilities	277	525	374	304	232	788	2,500
Total principal obligations	**$ 454**	**$ 1,637**	**$ 2,771**	**$ 1,340**	**$ 1,594**	**$ 4,969**	**$ 12,765**
Interest							
Long-term debt	243	462	404	306	248	391	2,054
Lease liabilities	68	114	89	70	55	297	693
Total interest obligations	**$ 311**	**$ 576**	**$ 493**	**$ 376**	**$ 303**	**$ 688**	**$ 2,747**
Total long-term debt and lease liabilities	**$ 765**	**$ 2,213**	**$ 3,264**	**$ 1,716**	**$ 1,897**	**$ 5,657**	**$ 15,512**
Committed capital expenditures	**$ 870**	**$ 2,574**	**$ 3,600**	**$ 2,917**	**$ 715**	**$ 2,495**	**$ 13,171**
Total contractual obligations [2]	**$ 1,635**	**$ 4,787**	**$ 6,864**	**$ 4,633**	**$ 2,612**	**$ 8,152**	**$ 28,683**

(1) Assumes the principal balance of the convertible notes, $375 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:

	June 30, 2024	December 31, 2023
Issued and outstanding shares		
Class A variable voting shares	74,816,772	82,887,375
Class B voting shares	283,676,234	275,581,911
Total issued and outstanding shares	**358,493,006**	**358,469,286**
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	17,856,599	17,856,599
Stock options	9,108,843	6,642,516
Total shares potentially issuable	**26,965,442**	**24,499,115**
Total outstanding and potentially issuable shares	**385,458,448**	**382,968,401**

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	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Operating revenues	$ 5,322	$ 4,680	$ 4,887	$ 5,427	$ 6,344	$ 5,175	$ 5,226	$ 5,519
Operating expenses	4,678	4,708	4,904	4,625	4,929	5,096	5,215	5,053
Operating income (loss)	**644**	**(28)**	**(17)**	**802**	**1,415**	**79**	**11**	**466**
Non-operating income (expense)	**(1,148)**	**174**	**(6)**	**(6)**	**(98)**	**43**	**(76)**	**(62)**
Income (loss) before income taxes	**(504)**	**146**	**(23)**	**796**	**1,317**	**122**	**(65)**	**404**
Income tax recovery (expense)	(4)	22	27	42	(67)	62	(16)	6
Net income (loss)	**$ (508)**	**$ 168**	**$ 4**	**$ 838**	**$ 1,250**	**$ 184**	**$ (81)**	**$ 410**
Basic earnings (loss) per share	**$ (1.42)**	**$ 0.47**	**$ 0.01**	**$ 2.34**	**$ 3.49**	**$ 0.51**	**$ (0.22)**	**$ 1.14**
Diluted earnings (loss) per share	**$ (1.42)**	**$ 0.41**	**$ (0.03)**	**$ 2.34**	**$ 3.08**	**$ 0.41**	**$ (0.22)**	**$ 1.04**
Adjusted EBITDA (1)	**$ 1,057**	**$ 389**	**$ 411**	**$ 1,220**	**$ 1,830**	**$ 521**	**$ 453**	**$ 914**
Adjusted pre-tax income (loss) (1)	**$ 446**	**$ (211)**	**$ (194)**	**$ 656**	**$ 1,278**	**$ (47)**	**$ (94)**	**$ 371**
Adjusted net income (loss) (1)	**$ 431**	**$ (217)**	**$ (188)**	**$ 664**	**$ 1,281**	**$ (44)**	**$ (96)**	**$ 369**
Adjusted earnings (loss) per share – diluted (1)	**$ 1.07**	**$ (0.61)**	**$ (0.53)**	**$ 1.85**	**$ 3.41**	**$ (0.12)**	**$ (0.27)**	**$ 0.98**

(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. Additional information on Air Canada's risk management practices and financial instruments is provided in Note 7 of Air Canada's interim unaudited condensed consolidated financial statements for the second quarter of 2024.

Fuel Price Risk Management

During the second quarter of 2024, fuel derivative contracts cash settled with a fair value of $25 million in favour of the counterparties with a hedging loss of $25 million recorded in Aircraft fuel expense. There were no outstanding fuel derivatives as at June 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.

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. The Corporation has 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 has no impact for the current period.

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 second quarter of 2024.

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. 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 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 June 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.

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 six months of 2024 or in 2023.

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 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 June 30, 2024 and six as at June 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)	Second Quarter			First Six Months		
	2024	2023	Change	2024	2023	Change
Operating expense – GAAP	**$ 5,053**	**$ 4,625**	**$ 428**	**$ 10,268**	**$ 9,529**	**$ 739**
Adjusted for:						
Aircraft fuel	(1,333)	(1,187)	(146)	(2,587)	(2,562)	(25)
Ground package costs	(137)	(126)	(11)	(472)	(444)	(28)
Freighter costs (excluding fuel)	(38)	(39)	1	(73)	(70)	(3)
Operating expense, adjusted for the above-noted items	**$ 3,545**	**$ 3,273**	**$ 272**	**7,136**	**6,453**	**683**
ASMs (millions)	**26,203**	**24,606**	**6.5%**	**50,540**	**46,513**	**8.7%**
Adjusted CASM (cents)	**¢ 13.53**	**¢ 13.30**	**¢ 0.23**	**¢ 14.12**	**¢ 13.87**	**¢ 0.25**

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:

	Second Quarter			First Six Months		
(Canadian dollars in millions, except where indicated)	**2024**	**2023**	**Change**	**2024**	**2023**	**Change**
Operating income – GAAP	**$ 466**	**$ 802**	**$ (336)**	**$ 477**	**$ 785**	**$ (308)**
Add back:						
Depreciation and amortization	448	418	30	890	846	44
Adjusted EBITDA	**$ 914**	**$ 1,220**	**$ (306)**	**$ 1,367**	**$ 1,631**	**$ (264)**
Operating revenues	**$ 5,519**	**$ 5,427**	**$ 92**	**$ 10,745**	**$ 10,314**	**$ 431**
Operating margin (%)	**8.4**	**14.8**	**(6.4) pp**	**4.4**	**7.6**	**(3.2) pp**
Adjusted EBITDA margin (%)	**16.6**	**22.5**	**(5.9) pp**	**12.7**	**15.8**	**(3.1) pp**

Adjusted Pre-tax Income (Loss)

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

	Second Quarter			First Six Months		
(Canadian dollars in millions)	**2024**	**2023**	**$ Change**	**2024**	**2023**	**$ Change**
Income before income taxes – GAAP	**$ 404**	**$ 796**	**$ (392)**	**$ 339**	**$ 773**	**$ (434)**
Adjusted for:						
Foreign exchange (gain) loss	2	(251)	253	(57)	(378)	321
Net interest relating to employee benefits	(6)	(6)	-	(11)	(12)	1
(Gain) loss on financial instruments recorded at fair value	(29)	115	(144)	(40)	77	(117)
Loss on debt settlement	-	2	(2)	46	2	44
Adjusted pre-tax income	**$ 371**	**$ 656**	**$ (285)**	**$ 277**	**$ 462**	**$ (185)**

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:

	Second Quarter			First Six Months		
(Canadian dollars in millions)	**2024**	**2023**	**$ Change**	**2024**	**2023**	**$ Change**
Net income – GAAP	**$ 410**	**$ 838**	**$ (428)**	**$ 329**	**$ 842**	**$ (513)**
Adjusted for:						
Foreign exchange (gain) loss	2	(251)	253	(57)	(378)	321
Net interest relating to employee benefits	(6)	(6)	-	(11)	(12)	1
(Gain) loss on financial instruments recorded at fair value	(29)	115	(144)	(40)	77	(117)
Loss on debt settlement	-	2	(2)	46	2	44
Income tax, including for the above reconciling items (1)	(8)	(34)	26	6	(55)	61
Adjusted net income	**$ 369**	**$ 664**	**$ (295)**	**$ 273**	**$ 476**	**$ (203)**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	376	358	18	376	358	18
Adjusted earnings per share – diluted	**$ 0.98**	**$ 1.85**	**$ (0.87)**	**$ 0.73**	**$ 1.33**	**$ (0.60)**

(1) In 2024, the deferred income tax recovery recorded in other comprehensive income related to remeasurements on employee benefit liabilities is offset by a deferred income tax expense which was recorded through Air Canada's consolidated statement of operations. This expense is removed from adjusted net income for the year 2024. In comparison, a deferred tax recovery was removed from adjusted net income for the second quarter of 2023.

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

	Second Quarter		First Six Months	
(In millions)	**2024**	**2023**	**2024**	**2023**
Weighted average number of shares outstanding – basic	**358**	**358**	**358**	**358**
Effect of dilution	18	-	18	-
Weighted average number of shares outstanding – diluted	**376**	**358**	**376**	**358**

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.