



First Quarter 2024

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

May 2, 2024



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 figures or where indicated)	First Quarter		
	2024	2023	\$ Change
Financial Performance Metrics			
Operating revenues	5,226	4,887	339
Operating income (loss)	11	(17)	28
Operating margin ⁽¹⁾ (%)	0.2	(0.3)	0.5 pp ⁽⁸⁾
Adjusted EBITDA ⁽²⁾	453	411	42
Adjusted EBITDA margin ⁽²⁾ (%)	8.7	8.4	0.3 pp
Loss before income taxes	(65)	(23)	(42)
Net income (loss)	(81)	4	(85)
Adjusted pre-tax loss ⁽²⁾	(94)	(194)	100
Adjusted net loss ⁽²⁾	(96)	(188)	92
Total liquidity ⁽³⁾	10,001	10,543	(542)
Net cash flows from operating activities	1,592	1,437	155
Free cash flow ⁽²⁾	1,056	987	69
Net debt ⁽²⁾	3,781	6,532	(2,751)
Diluted loss per share	(0.22)	(0.03)	(0.19)
Adjusted loss per share ⁽²⁾	(0.27)	(0.53)	0.26
Operating Statistics ⁽⁴⁾	2024	2023	Change %
Revenue passenger miles (RPMs) (millions)	20,520	18,578	10.5
Available seat miles (ASMs) (millions)	24,337	21,907	11.1
Passenger load factor %	84.3%	84.8%	(0.5) pp
Passenger revenue per RPM (Yield) (cents)	21.7	22.0	(1.6)
Passenger revenue per ASM (PRASM) (cents)	18.3	18.7	(2.2)
Operating revenue per ASM (cents)	21.5	22.3	(3.7)
Operating expense per ASM (CASM) (cents)	21.4	22.4	(4.3)
Adjusted CASM (cents) ⁽²⁾	14.8	14.5	1.6
Average number of full-time-equivalent (FTE) employees (thousands) ⁽⁵⁾	36.9	34.5	7.0
Aircraft in operating fleet at period-end	366	352	4
Seats dispatched (thousands)	13,479	12,293	9.7
Aircraft frequencies (thousands)	90.9	85.2	6.7
Average stage length (miles) ⁽⁶⁾	1,805	1,782	1.3
Fuel cost per litre (cents)	105.6	128.5	(17.9)
Fuel litres (thousands)	1,184,718	1,067,085	11.0
Revenue passengers carried (thousands) ⁽⁷⁾	10,751	9,969	7.8

(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 March 31, 2024, of \$10,001 million consisted of \$8,681 million in cash, cash equivalents, short and long-term investments and \$1,320 million available under undrawn credit facilities. As at March 31, 2023, total liquidity of \$10,543 million consisted of \$9,532

million in cash and cash equivalents, short and long-term investments, and \$1,011 million available under undrawn credit facilities. These amounts also include funds (\$229 million as at March 31, 2024, and \$231 million as at March 31, 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 first 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 first quarter of 2024 dated May 2, 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 May 1, 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 May 2, 2024 reporting on its results for the first quarter of 2024. This news release is available on Air Canada's website at aircanada.com and on the SEDAR+ website at www.sedarplus.com. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at www.sedarplus.com.

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.com 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

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2024. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.35 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 26-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 first quarter of 2024, Air Canada's financial results improved from the first quarter of 2023 as the airline continued restoring its network and significantly improved its operational performance. Operated capacity grew 11% year over year driven by a significant increase in the Pacific market owing to a better operating environment in the region (except for China). The capacity growth was about one percentage point better than the guidance provided in Air Canada's news release dated February 16, 2024.

Air Canada has continued to strengthen its financial position. In the first quarter of 2024, Air Canada completed the closing of US\$2.15 billion senior secured credit facilities discussed in section 7.2 "Net Debt" of this MD&A. Through this refinancing transaction, Air Canada reduced its senior secured indebtedness by over US\$1 billion, reduced the interest rate on its term loan B borrowings to SOFR (Secured Overnight Financing Rate) plus 250 basis points and increased available undrawn amounts under the revolving facility by US\$375 million.

Corporate Strategy

Air Canada's vision is to leverage the solid foundation it preserved over the past several years to return to its ambition to become a global champion. We will do this by taking advantage of new opportunities while continuing to execute on our unwavering commitment to safety, service excellence and the customer journey.

Air Canada is evolving its business for the future. "Rise Higher," Air Canada's business imperatives framework in support of its corporate strategy, is intended to elevate everything about its business. In pursuing its Rise Higher principles, Air Canada is working to:

- Fund its future by staying vigilant on costs, seizing on opportunities and making the right strategic investments.
- Reach new frontiers by embracing its competitive strengths to grow its business, expanding its international reach and exploring new opportunities.
- Elevate its customers by supporting the creation of meaningful customer experiences and human connections, such as by leveraging innovations in technology, loyalty program and products.
- Lift each other up by fostering a collaborative workplace that respects all diverse cultures and contributions to society.

First Quarter 2024 Financial Summary

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

- Operating revenues of \$5,226 million increased \$339 million or 7% on an operated capacity growth of 11% year over year.
- Operating expenses of \$5,215 million increased \$311 million or 6%. The increase was due to higher costs in nearly all line items reflecting higher operated capacity and traffic year-over-year, in addition to higher labour, maintenance and information technology expense. Lower fuel expense partially offset the increase.
- Operating income of \$11 million, with an operating margin of 0.2%, improved \$28 million.
- Adjusted EBITDA of \$453 million, with an adjusted EBITDA margin of 8.7%, improved \$42 million.
- Net loss of \$81 million and diluted loss per share of \$0.22 compared to a net income of \$4 million and diluted loss per share of \$0.03.

- Adjusted net loss of \$96 million and adjusted loss per diluted share of \$0.27 compared to an adjusted net loss of \$188 million and adjusted loss per diluted share of \$0.53.
- Adjusted CASM of 14.76 cents compared to 14.52 cents, an increase of 1.6% driven by labour, maintenance and information technology expenses.
- Net cash flows from operating activities of \$1,592 million increased \$155 million with continued strong growth in advance ticket sales consistent with seasonal trends.
- Free cash flow of \$1,056 million increased \$69 million.
- Net debt-to-adjusted EBITDA ratio was 0.9 as at March 31, 2024, compared to 1.1 as at December 31, 2023. The improvement was driven by strong free cash flow in the first quarter of 2024.

5. RESULTS OF OPERATIONS – Q1 2024 VERSUS Q1 2023

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

(in millions, except per share figures)	First Quarter			
	2024	2023	\$ Change	% Change
Operating revenues				
Passenger	\$ 4,443	\$ 4,088	355	9
Cargo	215	238	(23)	(9)
Other	568	561	7	1
Total operating revenues	5,226	4,887	339	7
Operating expenses				
Aircraft fuel	1,254	1,375	(121)	(9)
Wages, salaries and benefits	1,108	914	194	21
Depreciation and amortization	442	428	14	3
Airport and navigation fees	348	312	36	12
Sales and distribution costs	266	273	(7)	(3)
Capacity purchase fees	208	216	(8)	(4)
Aircraft maintenance	315	261	54	21
Ground package costs	335	318	17	5
Communications and information technology	186	146	40	27
Catering and onboard services	155	128	27	21
Other	598	533	65	12
Total operating expenses	5,215	4,904	311	6
Operating income (loss)	11	(17)	28	
Non-operating income (expense)				
Foreign exchange gain	59	127	(68)	
Interest income	125	83	42	
Interest expense	(217)	(245)	28	
Interest capitalized	7	5	2	
Financial instruments recorded at fair value	11	38	(27)	
Loss on debt settlements	(46)	-	(46)	
Other	(15)	(14)	(1)	
Total non-operating expense	(76)	(6)	(70)	
Loss before income taxes	(65)	(23)	(42)	
Income tax recovery (expense)	(16)	27	(43)	
Net income (loss)	\$ (81)	\$ 4	\$ (85)	
Basic earnings (loss) per share	\$ (0.22)	\$ 0.01	\$ (0.23)	
Diluted loss per share	\$ (0.22)	\$ (0.03)	\$ (0.19)	
Adjusted EBITDA ⁽¹⁾	\$ 453	\$ 411	\$ 42	
Adjusted pre-tax loss ⁽¹⁾	\$ (94)	\$ (194)	\$ 100	
Adjusted net loss ⁽¹⁾	\$ (96)	\$ (188)	\$ 92	
Adjusted loss per share – diluted ⁽¹⁾	\$ (0.27)	\$ (0.53)	\$ 0.26	

(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 first quarter of 2024, passenger revenues of \$4,443 million increased \$355 million or about 9% from the first quarter of 2023. The year-over-year increase was supported by higher capacity and traffic, most notably in the Pacific and Atlantic markets.

Demand for air travel remained stable, including for Air Canada's premium products. The year-over-year percentage growth in revenues from premium cabins represented about 30% of the total passenger revenue growth.

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

(in millions)	First Quarter			
	2024	2023	\$ Change	% Change
Canada	\$ 1,121	\$ 1,064	\$ 57	5.4
U.S. transborder	1,039	966	73	7.5
Atlantic	975	924	51	5.5
Pacific	671	492	179	36.5
Other	637	642	(5)	(0.9)
System	\$ 4,443	\$ 4,088	\$ 355	8.7

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

	First Quarter 2024 versus First Quarter 2023					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	5.4	2.5	1.8	(0.6)	3.5	2.8
U.S. transborder	7.5	6.4	5.8	(0.5)	1.6	1.1
Atlantic	5.5	12.4	11.3	(0.8)	(5.2)	(6.1)
Pacific	36.5	38.3	36.4	(1.3)	0.1	(1.3)
Other	(0.9)	2.8	2.4	(0.4)	(3.2)	(3.6)
System	8.7	11.1	10.5	(0.5)	(1.6)	(2.2)

Domestic Passenger Revenues

Domestic passenger revenues increased over 5% driven by higher yields on increased capacity and traffic across most of the domestic network, most notably in the regional network. The year-over-year yield increase was favourably impacted by the change in average stage length. These results reflect the sustained demand for air travel in a highly competitive marketplace.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues increased almost 8% driven by increased capacity and traffic in the transborder services except for sun destinations. Capacity increased as a result of new, restored and increased U.S. transborder services and improved connection opportunities with Air Canada's international network supporting the sixth freedom traffic strategy.

Atlantic Passenger Revenues

Atlantic passenger revenues increased almost 6% driven by higher capacity and traffic on routes to continental Europe and the United Kingdom. The results in the Atlantic were impacted by the geopolitical instability in the Middle East, which drove some weakness in key demand areas, as well as by lower yields in long-haul transatlantic routes.

Pacific Passenger Revenues

Pacific passenger revenues grew about 37% driven by increased capacity on a better operating environment due to the restoration of services to Asia Pacific regions (except for China and Hong Kong), most notably in Japan and Korea. In addition, demand from sixth freedom traffic to the Pacific increased compared to the first quarter of 2023 as both our Pacific and transborder networks continued to be restored.

Other Passenger Revenues

Other passenger revenues declined about 1% on lower capacity to South America and lower yields to the Caribbean and Central America.

Cargo Revenues

In the first quarter of 2024, Cargo revenues declined \$23 million or 9% from the first quarter of 2023. The decline was primarily due to lower revenues in the Atlantic market on lower yield and volume year over year. The decline was partially offset by increased volume in the other markets, most notably the Pacific market—aligned with the year-over-year capacity increase in that region.

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

(in millions)	First Quarter			
	2024	2023	\$ Change	% Change
Canada	\$ 25	\$ 24	\$ 1	2.6
U.S. transborder	12	11	1	10.9
Atlantic	84	119	(35)	(28.7)
Pacific	62	49	13	25.7
Other	32	35	(3)	(7.6)
System	\$ 215	\$ 238	\$ (23)	(9.4)

Other Revenues

In the first quarter of 2024, other revenues increased \$7 million or 1% from the first quarter of 2023. The increase was due to higher ground package revenues at Air Canada Vacations, higher miscellaneous passenger services and fees on increased traffic.

Operating Expenses

In the first quarter of 2024, operating expenses of \$5,215 million increased \$311 million or 6% from the first quarter of 2023. The increase was primarily due to increases in most line items reflecting higher capacity and traffic year over year, higher labour costs and increased information technology spend. The increase was partially offset by lower aircraft fuel expense on lower fuel costs year over year.

Compared to the first quarter of 2023, the more notable components of the change in operating expenses are described below.

Aircraft Fuel

Aircraft fuel expense declined 9% due to an 18% decline in jet fuel prices, partially offset by 11% more jet fuel litres used on increased flying activity.

Wages, Salaries and Benefits

Wages, salaries and benefits expense increased 21% resulting from accruals for profit sharing and other wage-related initiatives, as well as a 7% year-over-year increase in FTEs correlated with higher operated capacity.

Aircraft Maintenance

Aircraft maintenance expense increased 21% driven by an increased number of scheduled engine maintenance events and higher maintenance activity to support higher levels of flying.

Communications and Information Technology

Communications and information technology expense increased 27% reflecting higher usage of certain IT services driven by ongoing digital transformation initiatives. To a lesser extent, the unfavourable impact of price escalation related to inflation contributed to the increase.

Catering and Onboard Services

Catering and onboard services expenses increased 21% on a mix of higher traffic year over year and the unfavourable impact of inflation on food prices and services.

Other operating expenses

In the first quarter of 2024, other operating expenses increased 12% driven by a higher volume of flying year over year.

Air Canada has amended its freighter capacity plans and removed two Boeing 767 freighters from 2024 and 2025 to adjust the freighter fleet to market conditions. This capacity adjustment decision 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.

(in millions)	First Quarter			
	2024	2023	\$ Change	% Change
Terminal handling	\$ 131	\$ 112	\$ 19	17
Crew cycle	67	60	7	12
Building rent and maintenance	82	69	13	19
Miscellaneous fees and services	58	55	3	5
Remaining other expenses	260	237	23	10
Total other expenses	\$ 598	\$ 533	\$ 65	12

CASM and Adjusted CASM

In the first quarter of 2024, CASM declined 4.3% from the first quarter of 2023 driven by lower aircraft fuel expenses paired with the year-over-year capacity increase. The decline was partially offset by increased salaries, wages and benefits, aircraft maintenance and IT expenses and to a lesser extent, general inflationary pressures on certain line items.

Adjusted CASM increased 1.6% largely reflecting higher labour, maintenance and IT expenses, as well as general inflationary pressures on certain line items. The increase was limited by the favourable impact of 11% more capacity year over year.

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

(cents per ASM)	First Quarter			
	2024	2023	\$ Change	% Change
CASM	¢ 21.43	¢ 22.38	¢ (0.95)	(4.3)
Remove:				
Aircraft fuel expense, ground package costs and freighter costs	(6.67)	(7.86)	1.19	(15.2)
Adjusted CASM	¢ 14.76	¢ 14.52	¢ 0.24	1.6

Non-Operating Expense

In the first quarter of 2024, non-operating expenses totalled \$76 million, compared to \$6 million in the first quarter of 2023.

Foreign exchange gains amounted to \$59 million compared to gains of \$127 million in 2023. The March 31, 2024, closing exchange rate was US\$1=1.3540 compared to US\$1=\$1.3243 at December 31, 2023. With the weakening of the Canadian dollar, the foreign exchange remeasurement on long-term debt and lease obligations resulted in a loss of \$221 million that was more than offset by gains on foreign currency derivatives of \$290 million.

Interest expense of \$217 million decreased \$28 million from the first quarter of 2023 driven by lower debt levels resulting from debt prepayments made in 2023 and in the first quarter of 2024. The decline was partially offset by the impact of higher interest rates year over year on floating-rate debt. 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 the quarter 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 is in the process of arranging lease agreements for some additional Boeing 737 MAX 8 aircraft that would be scheduled for delivery in 2024, and which would enter into service in 2025, after having completed reconfiguration and other modification requirements. These aircraft are not included in the tables below.

 AIR CANADA	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	Mar. 31, 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	1	32	-	32
Boeing 787-10	-	-	-	-	-	1	1
Boeing 767-300 freighters	7	1	8	-	8	-	8
Airbus A330-300	18	-	18	2	20	-	20
Total wide-body aircraft	88	2	90	3	93	1	94
Narrow-body aircraft							
Boeing 737 MAX 8	40	-	40	-	40	5	45
Airbus A321XLR	-	-	-	-	-	3	3
Airbus A321	16	-	16	-	16	-	16
Airbus A320	19	3	22	-	22	-	22
Airbus A319	7	-	7	(2)	5	-	5
Airbus A220-300	33	-	33	2	35	8	43
Total narrow-body aircraft	115	3	118	-	118	16	134
Total Mainline	203	5	208	3	211	17	228

	Actual			Planned			
	Dec. 31, 2023	Year to Date Changes	Mar. 31, 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	5	248	3	251	17	268

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	Mar. 31, 2024	Remainder of 2024 Fleet Changes	Dec. 31, 2024	2025 Fleet Changes	Dec. 31, 2025
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200	15	-	15	-	15	(8)	7
Mitsubishi CRJ-900	35	-	35	-	35	(3)	32
De Havilland Dash 8-400	43	-	43	2	45	(8)	37
Total Air Canada Express	118	-	118	2	120	(19)	101

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 March 31, 2024, total liquidity was \$10,001 million comprising cash and cash equivalents, short-term and long-term investments of \$8,681 million, and \$1,320 million available under undrawn credit facilities. Cash and cash equivalents included \$229 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)	March 31, 2024	December 31, 2023	Change
Total long-term debt and lease liabilities	\$ 11,248	\$ 12,996	\$ (1,748)
Current portion of long-term debt and lease liabilities	1,214	866	348
Total long-term debt and lease liabilities (including current portion)	12,462	13,862	(1,400)
Less cash, cash equivalents and short and long-term investments	(8,681)	(9,295)	614
Net debt ⁽¹⁾	\$ 3,781	\$ 4,567	\$ (786)
Adjusted EBITDA (trailing 12 months)	\$ 4,024	3,982	42
Net debt to adjusted EBITDA ratio ⁽¹⁾	0.9	1.1	(0.2)

(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 0.9 at March 31, 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, driven by the strong free cash flow of \$1,056 million in the period. The decrease in total debt and lease liabilities included \$1.475 billion (US\$1.09 billion) in repayments made in the first quarter of 2024 in connection with the refinancing transaction completed in March 2024.

In March 2024, Air Canada entered into US\$2.15 billion senior secured credit facilities, comprising a US\$1.175 billion term loan B maturing in 2031 and a US\$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US\$1.09 billion, were applied to refinance all of Air Canada's indebtedness outstanding under its previous US\$2.265 billion term loan B maturing in 2028. The new revolving facility, which is the result of an increase and extension of Air Canada's existing US\$600 million revolving credit facility previously maturing in 2025, is undrawn as of March 31, 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)	March 31, 2024	December 31, 2023	\$ Change
Cash, cash equivalents and short-term investments	\$ 7,888	\$ 8,551	\$ (663)
Accounts receivable	1,185	1,121	64
Other current assets	678	588	90
Total current assets	\$ 9,751	\$ 10,260	\$ (509)
Accounts payable and accrued liabilities	3,439	3,328	111
Advance ticket sales	5,375	4,341	1,034
Aeroplan and other deferred revenues	1,482	1,473	9
Current portion of long-term debt and lease liabilities	1,214	866	348
Total current liabilities	\$ 11,510	\$ 10,008	\$ 1,502
Net working capital	\$ (1,759)	\$ 252	\$ (2,011)

Net working capital deficiency of \$1,759 million at March 31, 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.

7.4 CASH FLOW MOVEMENTS

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

(in millions)	First Quarter		
	2024	2023	\$ Change
Net cash flows from operating activities	\$ 1,592	\$ 1,437	\$ 155
Net cash flows used in financing activities	(1,705)	(292)	(1,413)
Net cash flows from (used in) investing activities	7	(749)	756
Effect of exchange rate changes on cash and cash equivalents	5	1	4
Increase (decrease) in cash and cash equivalents	\$ (101)	\$ 397	\$ (498)

Net Cash Flows from Operating Activities

Net cash flows from operating activities of \$1,592 million improved \$155 million from the same quarter in 2023 primarily due to the year-over-year improvement in operating results.

Net Cash Flows used in Financing Activities

In the first quarter of 2024, net cash flows used in financing activities of \$1,705 million increased \$1,413 million from the first quarter of 2023. The increase was due to 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 from (used in) Investing Activities

Net cash flows from investing activities increased by \$756 million. The first quarter of 2024 included net proceeds of \$543 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 as described in section 7.3 "Working Capital" of this MD&A. Additions to property, equipment and intangible assets were \$536 million in the first quarter of 2024, a year-over-year increase of \$86 million 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.

(in millions)	First Quarter		
	2024	2023	\$ Change
Net cash flows from operating activities	\$ 1,592	\$ 1,437	\$ 155
Additions to property, equipment, and intangible assets	(536)	(450)	(86)
Free cash flow ⁽¹⁾	\$ 1,056	\$ 987	\$ 69

(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 in the first quarter of 2024 was better than the 2023 first quarter comparative driven by better net cash flows from operating activities on better 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 between 2024 and 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.

Air Canada is in the process of arranging lease agreements for some additional Boeing 737 MAX 8 aircraft that would be scheduled for delivery in 2024, and which would enter into service in 2025, after having completed reconfiguration and other modification requirements. These aircraft will help support both Air Canada's short-term capacity requirements and long-term fleet planning.

Boeing 767 Freighter Aircraft

Air Canada has amended its freighter capacity plans and removed two Boeing 767 freighters from 2024 and 2025 to adjust the freighter fleet to market conditions.

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 2024.

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 the fourth quarter of 2025 with the last aircraft scheduled for delivery in the first quarter of 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 March 31, 2024 amounted to \$12,571 million.

(in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
Committed expenditures	\$ 1,482	\$ 2,420	\$ 4,453	\$ 1,306	\$ 673	\$ 2,237	\$ 12,571
Projected planned but uncommitted expenditures	113	291	501	478	506	Not available	Not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	460	715	618	451	451	Not available	Not available
Total projected expenditures ⁽²⁾	\$ 2,055	\$ 3,426	\$ 5,572	\$ 2,235	\$ 1,630	\$ Not available	Not available

(1) Future capitalized maintenance amounts for 2027 and beyond are not yet determinable, however estimates of \$451 million have been made for each of 2027 and 2028.

(2) U.S. dollar amounts are converted using the March 31, 2024, closing exchange rate of US\$1=C\$1.354. 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 March 31, 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⁾	\$ 274	\$ 1,100	\$ 2,373	\$ 1,032	\$ 1,361	\$ 4,158	\$ 10,298
Lease liabilities	394	500	348	284	214	733	2,473
Total principal obligations	\$ 668	\$ 1,600	\$ 2,721	\$ 1,316	\$ 1,575	\$ 4,891	\$ 12,771
Interest							
Long-term debt	317	458	401	305	246	387	2,114
Lease liabilities	98	106	82	65	50	284	685
Total interest obligations	\$ 415	\$ 564	\$ 483	\$ 370	\$ 296	\$ 671	\$ 2,799
Total long-term debt and lease liabilities	\$ 1,083	\$ 2,164	\$ 3,204	\$ 1,686	\$ 1,871	\$ 5,562	\$ 15,570
Committed capital expenditures	\$ 1,482	\$ 2,420	\$ 4,453	\$ 1,306	\$ 673	\$ 2,237	\$ 12,571
Total contractual obligations ⁽²⁾	\$ 2,565	\$ 4,584	\$ 7,657	\$ 2,992	\$ 2,544	\$ 7,799	\$ 28,141

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

	March 31, 2024	December 31, 2023
Issued and outstanding shares		
Class A variable voting shares	82,814,306	82,887,375
Class B voting shares	275,661,637	275,581,911
Total issued and outstanding shares	358,475,943	358,469,286
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	17,856,599	17,856,599
Stock options	9,159,332	6,642,516
Total shares potentially issuable	27,015,931	24,499,115
Total outstanding and potentially issuable shares	385,491,874	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
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	\$ 3,981	\$ 5,322	\$ 4,680	\$ 4,887	\$ 5,427	\$ 6,344	\$ 5,175	\$ 5,226
Operating expenses	4,234	4,678	4,708	4,904	4,625	4,929	5,096	5,215
Operating income (loss)	(253)	644	(28)	(17)	802	1,415	79	11
Non-operating income (expense)	(99)	(1,148)	174	(6)	(6)	(98)	43	(76)
Income (loss) before income taxes	(352)	(504)	146	(23)	796	1,317	122	(65)
Income tax recovery (expense)	(34)	(4)	22	27	42	(67)	62	(16)
Net income (loss)	\$ (386)	\$ (508)	\$ 168	\$ 4	\$ 838	\$ 1,250	\$ 184	\$ (81)
Basic earnings (loss) per share	\$ (1.08)	\$ (1.42)	\$ 0.47	\$ 0.01	\$ 2.34	\$ 3.49	\$ 0.51	\$ (0.22)
Diluted earnings (loss) per share	\$ (1.60)	\$ (1.42)	\$ 0.41	\$ (0.03)	\$ 2.34	\$ 3.08	\$ 0.41	\$ (0.22)
Adjusted EBITDA ⁽¹⁾	\$ 154	\$ 1,057	\$ 389	\$ 411	\$ 1,220	\$ 1,830	\$ 521	\$ 453
Adjusted pre-tax income (loss) ⁽¹⁾	\$ (447)	\$ 446	\$ (211)	\$ (194)	\$ 656	\$ 1,278	\$ (47)	\$ (94)
Adjusted net income (loss) ⁽¹⁾	\$ (455)	\$ 431	\$ (217)	\$ (188)	\$ 664	\$ 1,281	\$ (44)	\$ (96)
Adjusted earnings (loss) per share – diluted ⁽¹⁾	\$ (1.12)	\$ 1.07	\$ (0.61)	\$ (0.53)	\$ 1.85	\$ 3.41	\$ (0.12)	\$ (0.27)

(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 first quarter of 2024.

Fuel Price Risk Management

In April 2024, Air Canada hedged approximately 50% of anticipated purchases of jet fuel for the second quarter of 2024 at an average jet fuel price of US\$0.6644 per litre. Air Canada's contracts to hedge anticipated jet fuel purchases are composed of jet fuel swaps.

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2023 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2023 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Additional information on Air Canada's accounting policies is provided in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the first 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 March 31, 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 quarter of 2024 or in the first quarter of 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 eight Boeing 767 dedicated freighter aircraft in its operating fleet as at March 31, 2024, compared to seven Boeing 767 dedicated freighter aircraft in service as at December 31, 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:

(in millions, except where indicated)	First Quarter		
	2024	2023	Change
Operating expense – GAAP	\$ 5,215	\$ 4,904	\$ 311
Adjusted for:			
Aircraft fuel	(1,254)	(1,375)	121
Ground package costs	(335)	(318)	(17)
Freighter costs (excluding fuel)	(35)	(31)	(4)
Operating expense, adjusted for the above-noted items	\$ 3,591	\$ 3,180	\$ 411
ASMs (millions)	24,337	21,907	11.1%
Adjusted CASM (cents)	¢ 14.76	¢ 14.52	¢ 0.24

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:

(in millions, except where indicated)	First Quarter		
	2024	2023	Change
Operating income (loss) – GAAP	\$ 11	\$ (17)	\$ 28
Add back:			
Depreciation and amortization	442	428	14
Adjusted EBITDA	\$ 453	\$ 411	\$ 42
Operating revenues	\$ 5,226	\$ 4,887	\$ 339
Operating margin (%)	0.2	(0.3)	0.5 pp
Adjusted EBITDA margin (%)	8.7	8.4	0.3 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:

(in millions)	First Quarter		
	2024	2023	\$ Change
Loss before income taxes – GAAP	\$ (65)	\$ (23)	\$ (42)
Adjusted for:			
Foreign exchange gain	(59)	(127)	68
Net interest relating to employee benefits	(5)	(6)	1
Gain on financial instruments recorded at fair value	(11)	(38)	27
Loss on debt settlements	46	-	46
Adjusted pre-tax loss	\$ (94)	\$ (194)	\$ 100

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:

(in millions, except per share figures)	First Quarter		
	2024	2023	\$ Change
Net income (loss) – GAAP	\$ (81)	\$ 4	\$ (85)
Adjusted for:			
Foreign exchange gain	(59)	(127)	68
Net interest relating to employee benefits	(5)	(6)	1
Gain on financial instruments recorded at fair value	(11)	(38)	27
Loss on debt settlements	46	-	46
Income tax, including for the above reconciling items ⁽¹⁾	14	(21)	35
Adjusted net loss	\$ (96)	\$ (188)	\$ 92
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	358	358	-
Adjusted loss per share – diluted	\$ (0.27)	\$ (0.53)	\$ 0.26

(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 loss for the first 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.

(In millions)	First Quarter	
	2024	2023
Weighted average number of shares outstanding – basic	358	358
Effect of dilution	-	-
Weighted average number of shares outstanding – diluted	358	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.