Third Quarter 2023

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

October 30, 2023

AIR CANADA

A STAR ALLIANCE MEMBER

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1. SELECTED FINANCIAL METRICS AND STATISTICS

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

(Canadian dollars in millions, except per share data or where indicated)	Third Quarter			First Nine Months		
Financial Performance Metrics	**2023**	**2022**	**$ Change**	**2023**	**2022**	**$ Change**
Operating revenues	6,344	5,322	1,022	16,658	11,876	4,782
Operating income (loss)	1,415	644	771	2,200	(159)	2,359
Operating margin (1) (%)	22.3	12.1	10.2 pp(8)	13.2	(1.3)	14.5 pp
Adjusted EBITDA (2)	1,830	1,057	773	3,461	1,068	2,393
Adjusted EBITDA margin (2) (%)	28.8	19.9	8.9 pp	20.8	9.0	11.8 pp
Income (loss) before income taxes	1,317	(504)	1,821	2,090	(1,670)	3,760
Net income (loss)	1,250	(508)	1,758	2,092	(1,868)	3,960
Adjusted pre-tax income (loss) (2)	1,278	446	832	1,740	(741)	2,481
Adjusted net income (loss) (2)	1,281	431	850	1,757	(771)	2,528
Total liquidity (3)	9,949	10,236	(287)	9,949	10,236	(287)
Net cash flows from operating activities	408	290	118	3,335	1,721	1,614
Free cash flow (2)	135	(43)	178	2,087	476	1,611
Net debt (2)	5,438	7,829	(2,391)	5,438	7,829	(2,391)
Diluted earnings (loss) per share	3.08	(1.42)	4.50	5.55	(5.22)	10.77
Adjusted earnings (loss) per share – diluted (2)	3.41	1.07	2.34	4.67	(2.15)	6.82
Operating Statistics (4)	**2023**	**2022**	**% Change**	**2023**	**2022**	**% Change**
Revenue passenger miles (RPMs) (millions)	25,202	22,118	13.9	65,397	47,970	36.3
Available seat miles (ASMs) (millions)	28,060	25,562	9.8	74,573	60,190	23.9
Passenger load factor %	89.8%	86.5%	3.3 pp	87.7%	79.7%	8.0 pp
Passenger revenue per RPM (Yield) (cents)	23.3	21.8	6.8	22.7	21.2	7.0
Passenger revenue per ASM (PRASM) (cents)	20.9	18.8	10.8	19.9	16.9	17.8
Operating revenue per ASM (TRASM) (cents)	22.6	20.8	8.6	22.3	19.7	13.2
Operating expense per ASM (CASM) (cents)	17.6	18.3	(4.0)	19.4	20.0	(3.0)
Adjusted CASM (cents) (2)	12.2	11.6	5.6	13.2	13.0	1.6
Average number of full-time-equivalent (FTE) employees (thousands) (5)	35.9	31.8	12.7	35.4	29.6	19.8
Aircraft in operating fleet at period-end	354	344	3	354	344	3
Seats dispatched (thousands)	14,707	13,951	5.4	40,390	34,348	17.6
Aircraft frequencies (thousands)	101.0	99.6	1.5	279.7	250.6	11.6
Average stage length (miles) (6)	1,908	1,832	4.1	1,846	1,752	5.4
Fuel cost per litre (cents)	101.9	131.8	(22.6)	109.6	128.4	(14.7)
Fuel litres (thousands)	1,342,967	1,227,669	9.4	3,572,766	2,972,219	20.2
Revenue passengers carried (thousands) (7)	12,635	11,466	10.2	33,891	26,046	30.1

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

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

(3) Total liquidity refers to the sum of cash, cash equivalents, short- and long-term investments and the amounts available under Air Canada's credit facilities. Total liquidity, as at September 30, 2023, of $9,949 million consisted of $8,934 million in cash, cash equivalents, short- and long-term

investments and $1,015 million available under undrawn credit facilities. As at September 30, 2022, total liquidity of $10,236 million consisted of $9,206 million in cash and cash equivalents, short- and long-term investments, and $1,030 million available under undrawn credit facilities. Cash and cash equivalents also include funds ($240 million as at September 30, 2023, and $231 million as at September 30, 2022) 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 Jazz operating under the capacity purchase agreement with Air Canada.

(5) Reflects average FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at Jazz operating under the capacity purchase agreement 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), the Corporation 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 an analysis, from the perspective of management, of Air Canada's financial results for the third quarter of 2023. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the third quarter of 2023, dated October 30, 2023, as well as Air Canada's 2022 annual audited consolidated financial statements and notes and Air Canada's 2022 MD&A, each dated February 17, 2023. 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 (IASB), except for measures that are not recognized measures for financial statement presentation under GAAP and any other financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of October 29, 2023.

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 2022 MD&A, dated February 17, 2023, and section 14 "Risk Factors" of this MD&A. Air Canada issued a news release, dated October 30, 2023, reporting on its results for the third quarter of 2023. This news release is available on Air Canada's website at **aircanada.com** and on SEDAR's 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 and geopolitical conditions such as the 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, the remaining effects from the COVID-19 pandemic, Air Canada's dependence on technology, cybersecurity risks, 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, 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), Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, the availability and onboarding of Air Canada's workforce, other epidemic diseases, changes in laws, regulatory developments or proceedings, employee and labour relations and costs, 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 2022 MD&A, dated February 17, 2023, 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 and efforts of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies. 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, which is receiving increased focus of multiple stakeholders locally and internationally, 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, 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 its updated guidance — including moderate Canadian GDP growth for 2023, that the Canadian dollar will trade, on average, at C$1.35 per U.S. dollar for the full year 2023 and that the price of jet fuel will average C$1.13 per litre for the full year 2023.

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 the international market to and from Canada. Its mission is to connect 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

Air Canada's vision is predicated on leveraging the solid foundation it has built over the past several years to restore and rebuild toward its global champion ambition, while taking advantage of groundbreaking opportunities and continuing to execute on Air Canada's 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 strategy, is intended to elevate everything about its business. In pursuing this strategy, 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 the business, restoring and expanding its international reach and continually exploring new opportunities.
- Elevate its customers and support the creation of meaningful customer experiences and human connections by leveraging innovations in technology, loyalty and products.
- Foster a collaborative workplace that respects diverse cultures and languages, while making impactful contributions to society.

Third Quarter 2023 Financial Summary

In the third quarter of 2023, Air Canada saw continued improvement and strength in its financial results compared to the third quarter of 2022, when its financial results were still impacted by the remaining effects of the COVID-19 pandemic and certain remaining travel restrictions that were still in place.

Air Canada expanded its summer 2023 schedule compared to the schedule operated in 2022. In the domestic market, Air Canada resumed several seasonal routes, increased frequencies on certain domestic routes and launched a non-stop service between Montréal and Fort McMurray. In the transborder market, Air Canada launched routes between Toronto and Montréal to New York JFK airport and between Toronto and Sacramento, restored 13 transborder routes, and increased frequency on over a dozen U.S. routes. For international markets, Air Canada added new European services to Brussels, Amsterdam, Toulouse and Copenhagen. It also resumed key Asia services to Tokyo-Haneda and Osaka, and increased frequencies to various destinations in the Atlantic, Pacific and South America regions.

The following is an overview of Air Canada's results of operations and financial position for the third quarter of 2023 compared to the third quarter of 2022.

- Operating revenues of $6,344 million increased $1,022 million from the third quarter of 2022 driven by higher passenger revenues. Operated capacity increased 10% from the third quarter of 2022, about one percentage point below the projection provided in Air Canada's August 11, 2023, news release.
- Operating expenses of $4,929 million increased $251 million or 5% from the third quarter of 2022. The increase was due primarily to increases in nearly all line items reflecting higher traffic and capacity year over year and general inflationary pressures. Lower aircraft fuel expense resulting from 23% lower jet fuel prices year over year partially offset the increase.
- Operating income of $1,415 million, with an operating margin of 22.3%, improved $771 million from the third quarter of 2022.
- Adjusted EBITDA of $1,830 million, with an adjusted EBITDA margin of 28.8%, increased $773 million from the third quarter of 2022.
- Net income of $1,250 million increased $1,758 million from the third quarter of 2022. Diluted earnings per share of $3.08 compared to a diluted loss per share of $1.42 in the third quarter of 2022.

- Adjusted net income of $1,281 million improved $850 million from the third quarter of 2022. Adjusted earnings per diluted share of $3.41 compared to $1.07 in the third quarter of 2022.

- Adjusted CASM of 12.20 cents increased 5.6% from the third quarter of 2022. The unit cost was impacted by a 17% increase in salaries, wages and benefits expenses—on higher staffing levels—and by higher passenger service costs due to higher traffic and higher selling costs—which are correlated to revenues—and by inflationary pressures on various line items. Third quarter 2023 CASM of 17.57 cents decreased 4.0% from the third quarter of 2022, driven by lower fuel prices and higher capacity year over year, and was partially offset by higher salaries, wages and benefits, higher passenger service costs and inflationary pressures.

- Net cash flows from operating activities of $408 million increased $118 million from the third quarter of 2022.

- Free cash flow of $135 million increased $178 million from the third quarter of 2022.

- Net debt-to-adjusted EBITDA ratio was 1.4, as measured at September 30, 2023, an improvement from 5.1 as at December 31, 2022, due to an increase in adjusted EBITDA and a $2.1 billion reduction in net debt in the first nine months of 2023.

5. RESULTS OF OPERATIONS

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

	Third Quarter				First Nine Months			
(Canadian dollars in millions, except where indicated)	**2023**	**2022 [1] Restated**	**$ Change**	**% Change**	**2023**	**2022 [1] Restated**	**$ Change**	**% Change**
Operating revenues								
Passenger	$ 5,861	$ 4,818	1,043	22	$ 14,850	$ 10,176	4,674	46
Cargo	215	281	(66)	(24)	680	978	(298)	(30)
Other	268	223	45	20	1,128	722	406	56
Total operating revenues	**6,344**	**5,322**	**1,022**	**19**	**16,658**	**11,876**	**4,782**	**40**
Operating expenses								
Aircraft fuel	1,365	1,617	(252)	(16)	3,927	3,817	110	3
Wages, salaries and benefits	995	850	145	17	2,880	2,368	512	22
Depreciation, amortization and impairment	415	413	2	0	1,261	1,227	34	3
Airport and navigation fees	392	366	26	7	1,068	893	175	20
Sales and distribution costs	307	250	57	23	844	569	275	48
Capacity purchase fees	218	194	24	12	635	549	86	16
Aircraft maintenance	236	205	31	15	772	458	314	69
Ground package costs	99	80	19	24	543	311	232	75
Communications and information technology	141	115	26	23	415	341	74	22
Catering and onboard services	181	127	54	43	467	298	169	57
Other	580	461	119	26	1,646	1,204	442	37
Total operating expenses	**4,929**	**4,678**	**251**	**5**	**14,458**	**12,035**	**2,423**	**20**
Operating income (loss)	**1,415**	**644**	**771**		**2,200**	**(159)**	**2,359**	
Non-operating income (expense)								
Foreign exchange gain (loss)	(61)	(951)	890		317	(1,048)	1,365	
Interest income	118	46	72		307	97	210	
Interest expense	(236)	(239)	3		(722)	(664)	(58)	
Interest capitalized	(2)	3	(5)		9	8	1	
Financial instruments recorded at fair value	101	(25)	126		24	89	(65)	
Gain (loss) on debt settlement	(7)	17	(24)		(9)	17	(26)	
Other	(11)	1	(12)		(36)	(10)	(26)	
Total non-operating expense	**(98)**	**(1,148)**	**1,050**		**(110)**	**(1,511)**	**1,401**	
Income (loss) before income taxes	**1,317**	**(504)**	**1,821**		**2,090**	**(1,670)**	**3,760**	
Income tax recovery (expense)	(67)	(4)	(63)		2	(198)	200	
Net income (loss)	**$ 1,250**	**$ (508)**	**$ 1,758**		**$ 2,092**	**$ (1,868)**	**$ 3,960**	
Basic earnings (loss) per share	**$ 3.49**	**$ (1.42)**	**$ 4.91**		**$ 5.84**	**$ (5.22)**	**$ 11.06**	
Diluted earnings (loss) per share	**$ 3.08**	**$ (1.42)**	**$ 4.50**		**$ 5.55**	**$ (5.22)**	**$ 10.77**	
Adjusted EBITDA [2]	**$ 1,830**	**$ 1,057**	**$ 773**		**$ 3,461**	**$ 1,068**	**$ 2,393**	
Adjusted pre-tax income (loss) [2]	**$ 1,278**	**$ 446**	**$ 832**		**$ 1,740**	**$ (741)**	**$ 2,481**	
Adjusted net income (loss) [2]	**$ 1,281**	**$ 431**	**$ 850**		**$ 1,757**	**$ (771)**	**$ 2,528**	
Adjusted earnings (loss) per share – diluted [2]	**$ 3.41**	**$ 1.07**	**$ 2.34**		**$ 4.67**	**$ (2.15)**	**$ 6.82**	

(1) Comparative figures for the third quarter of 2022 have been reclassified to conform to the financial statement presentation adopted for the year ended December 31, 2022. Refer to Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2023 and Section 12 "Accounting Policies" of Air Canada's 2022 MD&A for information on the reclassifications on the consolidated statement of operations.

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

Passenger Revenues

Passenger revenues in the third quarter of 2023 increased $1,043 million or about 22% from the third quarter of 2022. The increase was in part due to higher operated capacity on a continued strong demand for air transportation, most notably in the international services. Yields were also a solid contributor to the revenue performance, up about 7% from the third quarter of 2022. System passenger load factor of about 90% increased three percentage points from the same period in 2022.

Passenger revenues in the first nine months of 2023 increased about 46% from the first nine months of 2022 with a 7% higher yield and a 18% higher PRASM on 24% more capacity year over year. These results reflect strong demand for air transportation services in all markets and a better operating environment, including due to the progressive easing of travel restrictions in Canada in 2022—the last of which were removed in October 2022.

Premium revenues increased 21% from the third quarter of 2022 and 48% from the first nine months of 2022 resulting from continued strength for premium products in all markets, for both business and leisure travel. Strength in point-to-point demand (i.e., travellers with no connections) also contributed to the year over year revenue growth.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change
Canada	$ 1,515	$ 1,466	$ 49	3.3	$ 3,861	$ 3,229	$ 632	19.6
U.S. transborder	1,127	915	212	23.1	3,130	2,101	1,029	49.0
Atlantic	2,201	1,770	431	24.4	4,790	3,285	1,505	45.8
Pacific	704	382	322	84.2	1,769	706	1,063	150.7
Other	314	285	29	9.9	1,300	855	445	52.1
System	**$ 5,861**	**$ 4,818**	**$ 1,043**	**21.6**	**$ 14,850**	**$ 10,176**	**$ 4,674**	**45.9**

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

	Third Quarter 2023 versus Third Quarter 2022					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	3.3	0.1	3.4	2.8	(0.1)	3.2
U.S. transborder	23.1	9.8	13.0	2.5	8.9	12.1
Atlantic	24.4	6.8	10.4	3.0	12.7	16.5
Pacific	84.2	55.9	66.5	5.9	10.7	18.2
Other	9.9	3.6	7.3	3.1	2.4	6.1
System	**21.6**	**9.8**	**13.9**	**3.3**	**6.8**	**10.8**

	First Nine Months of 2023 versus First Nine Months of 2022					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	19.6	7.9	15.6	5.7	3.4	10.8
U.S. transborder	49.0	24.9	39.6	9.0	6.7	19.3
Atlantic	45.8	17.2	27.2	7.1	14.6	24.4
Pacific	150.7	108.7	140.1	12.0	4.4	20.1
Other	52.1	21.8	37.6	9.9	10.5	24.9
System	**45.9**	**23.9**	**36.3**	**8.0**	**7.0**	**17.8**

Domestic

Domestic passenger revenues increased 3% from the third quarter of 2022 driven by increased traffic year over year across most of the domestic network. Yields remained stable despite increased domestic market competition. Domestic operated capacity was flat year over year mainly due to pilot attrition at our principal regional partner and global supply chain challenges impacting certain aircraft maintenance activities.

In the first nine months of 2023, domestic passenger revenues increased about 20% from the same period in 2022 on higher PRASM and higher yield resulting from strong demand and a favourable pricing environment in the domestic network despite the growth in competitive activity.

U.S. transborder

U.S. transborder passenger revenues increased 23% from the third quarter of 2022 on traffic growth outpacing capacity growth in all major US markets, most notably U.S. short- and long-haul. This reflected continued strength in U.S. transborder services and in sixth freedom traffic. In the first nine months of 2023, U.S. transborder passenger revenues increased 49% from the same period of 2022. Capacity increased as a result of new, restored and increased U.S. transborder services and improved connection opportunities with our international network supporting the sixth freedom traffic strategy.

Atlantic

Atlantic passenger revenues increased 24% from the third quarter of 2022 and 46% from the nine first months of 2022. This was due to strong demand for transatlantic services—to and from Canada as well as sixth freedom traffic—largely driven by a better operating environment and the removal of remaining travel restrictions in Canada in the second half of 2022. The strong demand, including for premium products, resulted in year-over-year PRASM and yield gains in all major route groups, despite increased capacity in both the third quarter and in the first nine months of 2023. Capacity increased, for both periods, as a result of new and restored transatlantic routes as well as increased frequencies to certain European destinations.

Pacific

Pacific passenger revenues increased 84% compared to the third quarter of 2022 and 2.5 times compared to the first nine months of 2022. The result was due to a better operating environment resulting from the restoration of services to Asia Pacific countries (except for China), especially Japan, following the easing of restrictions in Canada and in these countries. Demand from sixth freedom traffic to the Pacific rebounded compared to 2022 as both our Pacific and transborder networks were restored.

Other

Other passenger revenues increased 10% compared to the third quarter of 2022 and 52% compared to the first nine months of 2022. This was a result of strong demand for services to the Caribbean and Central and South America, largely due to the removal of all remaining travel restrictions in Canada in the second half of 2022. In January 2022, in response to the emergence and impact of the Omicron variant, Air Canada had suspended flights to certain Caribbean destinations from January 24 to April 30, 2022.

The table below provides, by market, Air Canada's revenue passenger miles (RPMs) and available seat miles (ASMs) for the periods indicated.

	Third Quarter				First Nine Months			
	2023		2022		2023		2022	
(millions)	**RPMs**	**ASMs**	**RPMs**	**ASMs**	**RPMs**	**ASMs**	**RPMs**	**ASMs**
Canada	5,530	6,331	5,349	6,325	13,995	16,392	12,103	15,189
U.S. transborder	4,033	4,677	3,569	4,260	11,569	13,653	8,286	10,934
Atlantic	10,748	11,712	9,735	10,971	24,114	26,905	18,961	22,962
Pacific	3,290	3,547	1,976	2,275	9,037	9,849	3,764	4,719
Other	1,601	1,793	1,489	1,731	6,682	7,774	4,856	6,386
System	**25,202**	**28,060**	**22,118**	**25,562**	**65,397**	**74,573**	**47,970**	**60,190**

Cargo Revenues

Cargo revenues in the third quarter of 2023 declined $66 million or 24% from the third quarter of 2022 primarily on lower yields in all markets resulting from continued softness in demand for air cargo services.

Cargo revenues in the first nine months of 2023 declined $298 million or 30% from the same period in 2022. The decline was due to continued softness in volume and yield in all markets and to the return of temporarily converted passenger aircraft to passenger operations through the end of the second quarter of 2022. Increased freighter operations to Central and South America and to Europe partially offset the year-over-year decline.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2023	**2022**	**$ Change**	**% Change**	**2023**	**2022**	**$ Change**	**% Change**
Canada	$ 22	$ 26	$ (4)	(18.3)	$ 69	$ 84	$ (15)	(18.3)
U.S. transborder	11	15	(4)	(22.3)	33	38	(5)	(12.1)
Atlantic	100	141	(41)	(29.3)	328	411	(83)	(20.4)
Pacific	54	70	(16)	(22.6)	157	343	(186)	(54.2)
Other	28	29	(1)	(5.2)	93	102	(9)	(8.6)
System	**$ 215**	**$ 281**	**$ (66)**	**(23.7)**	**$ 680**	**$ 978**	**$ (298)**	**(30.5)**

Other Revenues

Other revenues in the third quarter of 2023 increased $45 million or 20% from the third quarter of 2022. The increase was due to higher ground package revenues at Air Canada Vacations, higher miscellaneous passenger services and onboard purchases on increased traffic and higher non-air revenues related to the Aeroplan program.

Other revenues in the first nine months of 2023 increased $406 million or 56% from the first nine months of 2022. The increase was primarily due to higher volume of ground package revenues at Air Canada Vacations. To a lesser extent, higher onboard purchases and miscellaneous passenger services on increased traffic and higher non-air revenues related to the Aeroplan program also contributed to the increase.

Operating Expenses

In the third quarter of 2023, on a 10% capacity growth, total operating expenses increased 5% from the third quarter of 2022. The increase was due primarily to increases in nearly all line items reflecting higher operated capacity and traffic year-over-year, including higher salaries, wages and benefits reflecting the growth in full-time equivalent employees and average salaries year over year. The increase was partially offset by a 16% decline in aircraft fuel expense associated with lower jet fuel prices year over year.

In the first nine months of 2023, total operating expenses increased 20% from the same period in 2022 with increases in all line items reflecting 36% more traffic and 24% more operated capacity, including higher aircraft fuel expense. The year over year increase also resulted from higher salaries, wages and benefits on 20% more full-time equivalent employees.

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

Aircraft Fuel

Aircraft fuel expense decreased 16% from the third quarter of 2022 reflecting a 23% year-over-year decline in jet fuel prices—net of an unfavourable foreign exchange variance—that was partially offset by more litres of fuel used on increased flying year over year. The decrease in aircraft fuel expense included a $68 million gain from the settlement of jet fuel hedges. In 2022, Air Canada did not have fuel hedging positions in place.

In the first nine months of 2023, aircraft fuel expense increased 3% from the same period in 2022 mainly due to 20% more litres of fuel used on increased flying year-over-year. The 15% decline in jet fuel prices, net of an unfavourable foreign exchange variance, from the first nine months of 2022 partially offset the increase. Aircraft fuel expense included a $68 million gain from the settlement of jet fuel hedges in the third quarter of 2023.

Wages, Salaries and Benefits

Wages, salaries and benefits increased 17% from the third quarter of 2022 and 22% from the first nine months of 2022. The increases were due to increased staffing levels required to support planned operations, as a result of the year-over-year capacity increases.

Sales and Distribution Costs

Sales and distribution costs increased 23% from the third quarter of 2022 and 48% from the first nine months of 2022. The increases were driven by increased commissions and credit card and payment fees, which were in line with the year-over-year increase in passenger revenues for the third quarter and first nine months of 2023.

Capacity Purchase Fees

Capacity purchase fees increased 12% from the third quarter of 2022 and 16% from the first nine months of 2022. The increases were mainly due to higher CPA rates year-over-year due to higher costs incurred by Jazz to operate flights on behalf of Air Canada, partially offset by lower volume of flying year over year. The year-over-year increase also reflects the agreement with PAL Airlines, which became effective on July 1, 2023.

Aircraft Maintenance

Aircraft maintenance expense increased 15% mainly due to increased maintenance activities associated with a higher volume of flying year over year. To a lesser extent, an increase in maintenance provisions—related to leased aircraft that joined the operating fleet in 2023—also contributed to the increase.

In the first nine months of 2023, aircraft maintenance expense increased 69% from the same period in 2022. The increase largely reflected a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022, which was the result of an amended agreement with a third-party maintenance provider. Also contributing to the increase were more maintenance activities on a higher volume of flying year over year and an increase in maintenance provisions for leased aircraft that joined the fleet in 2023.

Ground Package Costs

Ground package costs increased 24% from the third quarter of 2022, due to a mix of higher rates on ground packages at Air Canada Vacations and higher volume of passengers year-over-year.

In the first nine months of 2023, ground package costs increased 75% from the same period in 2022, mainly due to higher volume of ground package revenues at Air Canada Vacations. In January 2022, in response to the emergence of the Omicron variant and the associated short-term decline in demand, Air Canada suspended its flights to certain Caribbean destinations from January 24 to April 30, 2022.

Catering and onboard services

Catering and onboard services increased 43% from the third quarter of 2022 and 57% from the first nine months of 2022. The increases were driven by higher traffic and capacity as well as changes in traffic mix year over year. To a lesser extent, a one-time charge related to an agreement with a third-party supplier (recorded in the third quarter of 2023) and inflationary pressures also contributed to the increases.

Other Operating Expenses

Other operating expenses increased 26% from the third quarter of 2022 and 37% from the first nine months of 2022. The increases were mainly driven by a higher volume of flying year-over-year.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change
Terminal handling	$ 137	$ 105	$ 32	30	$ 370	$ 261	$ 109	42
Crew cycle	75	58	17	29	198	148	50	34
Building rent and maintenance	73	61	12	20	214	162	52	32
Miscellaneous fees and services	56	57	(1)	(2)	164	146	18	12
Remaining other expenses	239	180	59	33	700	487	213	44
Total other expenses	**$ 580**	**$ 461**	**$ 119**	**26**	**$ 1,646**	**$ 1,204**	**$ 442**	**37**

CASM and Adjusted CASM

In the third quarter of 2023, adjusted CASM of 12.20 cents increased 5.6% from the third quarter of 2022. The unit cost was impacted by a 17% increase in salaries, wages and benefits expenses—on higher staffing levels—and by higher passenger service costs due to higher traffic and higher selling costs—which are correlated to revenues—and by inflationary pressures on various line items. Third quarter 2023 CASM of 17.57 cents decreased 4% from the third quarter of 2022, driven by lower fuel prices and higher capacity year over year, and was partially offset by higher salaries, wages and benefits, higher passenger service costs and inflationary pressures.

In the first nine months of 2023, adjusted CASM of 13.24 cents increased 1.6% year over year. The unit cost was impacted by higher passenger service costs due to higher traffic and higher selling costs, which are correlated to revenues, by 22% higher salaries, wages and benefits expenses, by a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022 and by inflationary pressures on certain line items. Higher operated capacity partially offset the increase. CASM in the first nine months of 2023 declined 3% driven by higher operated capacity year over year. The decline was partially offset by a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022 and by inflationary pressures on certain line items.

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

(Cents per ASM)	Third Quarter				First Nine Months			
	2023	2022	¢ Change	% Change	2023	2022	¢ Change	% Change
CASM	**¢ 17.57**	**¢ 18.30**	**¢ (0.73)**	**(4.0)**	**¢ 19.39**	**¢ 19.99**	**¢ (0.60)**	**(3.0)**
Remove:								
Aircraft fuel expense, ground package costs, impairment of assets, and freighter costs	(5.37)	(6.74)	1.37	(20.6)	(6.15)	(6.96)	0.81	(11.9)
Adjusted CASM	**¢ 12.20**	**¢ 11.56**	**¢ 0.64**	**5.6**	**¢ 13.24**	**¢ 13.03**	**¢ 0.21**	**1.6**

Non-Operating Expense

In the third quarter of 2023, non-operating expenses totalled $98 million compared to expenses of $1,148 million in the third quarter of 2022. In the first nine months of 2023, non-operating expenses totalled $110 million compared to expenses of $1,511 million in the first nine months of 2022.

Foreign exchange losses amounted to $61 million in the third quarter of 2023 compared to losses of $951 million in the third quarter of 2022. The September 30, 2023, closing exchange rate was US$1=$1.3577 compared to a closing exchange rate of US$1=$1.3242 at June 30, 2023, and US$=1.3554 on December 31, 2022. With the weakening Canadian dollar, foreign exchange losses on U.S. denominated debt amounted to $263 million in the third quarter of 2023 and were largely offset by gains of $215 million on foreign currency derivatives. Gains on foreign exchange amounted to $317 million in the first nine months of 2023, compared to losses of $1,048 million in the same period in 2022, and arose primarily from foreign currency derivatives.

Interest expense was $236 million in the third quarter of 2023 compared to $239 million in the third quarter of 2022 and $722 million in the first nine months of 2023 compared to $664 million in the first nine months of 2022. Debt repayments in 2023, in particular the $1,239 million in prepaid aircraft debt in the two previous quarters, resulted in a reduction in interest expense which moderates the impact of higher interest rates year over year on floating-rate debt.

Gain on financial instruments recorded at fair value was $101 million in the third quarter of 2023 and $24 million in the first nine months of 2023, primarily resulted from fluctuations in the fair value of Air Canada's Convertible Notes with gains of $108 million and $32 million, respectively.

6. FLEET

Mainline and Air Canada Rouge

The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleets as at the dates indicated, as well as the planned operating fleet for the future periods indicated. Refer to the Air Canada Express section below for information on the fleet of aircraft operated by regional carriers under the Air Canada Express brand.

AIR CANADA	Actual			Planned			
	Dec. 31, 2022	First Nine Months 2023 Fleet Changes	Sep. 30, 2023	Remainder of 2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
Wide-body aircraft							
Boeing 777-300ER	18	1	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	29	1	30	-	30	2	32
Boeing 767-300 freighter	5	1	6	1	7	2	9
Airbus A330-300	16	2	18	-	18	-	18
Total wide-body aircraft	82	5	87	1	88	4	92
Narrow-body aircraft							
Boeing 737 MAX 8	40	-	40	-	40	-	40
Airbus A321	15	-	15	-	15	1	16
Airbus A320	18	-	18	(2)	16	3	19
Airbus A319	5	2	7	(2)	5	-	5
Airbus A220-300	32	1	33	-	33	3	36
Total narrow-body aircraft	110	3	113	(4)	109	7	116
Total Mainline	**192**	**8**	**200**	**(3)**	**197**	**11**	**208**

AIR CANADA rouge	Actual			Planned			
	Dec. 31, 2022	First Nine Months 2023 Fleet Changes	Sep. 30, 2023	Remainder of 2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
Narrow-body aircraft							
Airbus A321	14	3	17	-	17	-	17
Airbus A320	5	-	5	-	5	-	5
Airbus A319	20	(2)	18	-	18	-	18
Total Air Canada Rouge	**39**	**1**	**40**	**-**	**40**	**-**	**40**

Total Mainline & Rouge	**231**	**9**	**240**	**(3)**	**237**	**11**	**248**

Air Canada Express

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

AIR CANADA EXPRESS	Actual			Planned			
	Dec. 31, 2022	**First Nine Months 2023 Fleet Changes**	**Sep. 30, 2023**	**Remainder of 2023 Fleet Changes**	**Dec. 31, 2023**	**2024 Fleet Changes**	**Dec. 31, 2024**
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200	15	-	15	-	15	(8)	7
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-400	39	-	39	4	43	-	43
Total Air Canada Express	**114**	**-**	**114**	**4**	**118**	**(8)**	**110**

7. FINANCIAL AND CAPITAL MANAGEMENT

7.1 LIQUIDITY

Liquidity Risk Management

At September 30, 2023, total liquidity was $9,949 million comprising cash and cash equivalents, short- and long-term investments of $8,934 million and $1,015 million available under undrawn credit facilities. Cash and cash equivalents include $240 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 liquidity. Liquidity needs related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

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, and 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 processes to monitor and maintain compliance with terms of financing agreements.

7.2 NET DEBT

(Canadian dollars in millions)	September 30, 2023	December 31, 2022	$ Change
Long-term debt and lease liabilities	$ 13,413	$ 15,043	$ (1,630)
Current portion of long-term debt and lease liabilities	959	1,263	(304)
Total long-term debt and lease liabilities	**14,372**	**16,306**	**(1,934)**
Less cash, cash equivalents and short- and long-term investments	(8,934)	(8,811)	(123)
Net debt (1)	**$ 5,438**	**$ 7,495**	**$ (2,057)**
Adjusted EBITDA (trailing 12 months)	**$ 3,850**	**1,457**	**2,393**
Net debt to adjusted EBITDA ratio (1)	**1.4**	**5.1**	**(3.7)**

(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 1.4 as measured at September 30, 2023, an improvement from the ratio of 5.1 as at December 31, 2022, due to growth in adjusted EBITDA and the reduction in net debt. The decrease in total debt and lease liabilities included $2,120 million of repayments—made in the first nine months of 2023—including the $1,112 million from the prepayment of Airbus A220 debt and the prepayment of $127 million previously used to fund the acquisition of four Boeing 787-8 aircraft. Greater cash and investments, accumulated through operating cashflows, also contributed to the improvement in net debt.

7.3 WORKING CAPITAL

The table below provides information on Air Canada's working capital balances as at September 30, 2023, and December 31, 2022.

(Canadian dollars in millions)	September 30, 2023	December 31, 2022	$ Change
Cash, cash equivalents and short-term investments	$ 8,292	$ 7,988	$ 304
Accounts receivable	1,195	1,037	158
Other current assets	888	640	248
Total current assets	**$ 10,375**	**$ 9,665**	**$ 710**
Accounts payable and accrued liabilities	2,441	2,691	(250)
Advance ticket sales	4,528	4,104	424
Aeroplan and other deferred revenues	1,404	1,295	109
Current portion of long-term debt and lease liabilities	959	1,263	(304)
Total current liabilities	**$ 9,332**	**$ 9,353**	**$ (21)**
Net working capital	**$ 1,043**	**$ 312**	**$ 731**

Net working capital of $1,043 million at September 30, 2023 increased $731 million from December 31, 2022. This was driven by positive operating cash results and an increase in Other current assets which included the expected return of advance payments related to the substitution of two Boeing 777 freighter aircraft discussed in section 7.5 "Capital Expenditures and Related Financing Arrangements."

7.4 CASH FLOW MOVEMENTS

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

	Third Quarter			First Nine Months		
(Canadian dollars in millions)	2023	2022	$ Change	2023	2022	$ Change
Net cash flows from operating activities	$ 408	$ 290	$ 118	$ 3,335	$ 1,721	$ 1,614
Net cash flows used in financing activities	(809)	(534)	(275)	(2,036)	(873)	(1,163)
Net cash flows used in investing activities	(71)	(56)	(15)	(1,538)	(2,635)	1,097
Effect of exchange rate changes on cash and cash equivalents	6	-	6	6	18	(12)
Decrease in cash and cash equivalents	**$ (466)**	**$ (300)**	**$ (166)**	**$ (233)**	**$ (1,769)**	**$ 1,536**

Net Cash Flows from Operating Activities

Net cash flows from operating activities surpassed the 2022 comparative periods resulting from continued improvement in results from operations and strong advance ticket sales.

Net Cash Flows Used in Financing Activities

In the third quarter of 2023, net cash flows used in financing activities of $809 million related to scheduled debt repayments and $589 million from the prepayment of loans which had been used to finance the acquisition of Boeing 787 and Airbus A220 aircraft. Combined with the prepayment of A220 debt completed in the second quarter of 2023, the total amount of debt prepayments for the nine months of 2023 totalled $1,239 million.

Net Cash Flows Used in Investing Activities

Additions to property, equipment and intangible assets amounted to $273 million and $1,248 million during the third quarter of 2023 and the first nine months of 2023, respectively. These additions relate mainly to aircraft acquisitions and related pre-delivery payments, capitalized maintenance and technology projects. Net movements from cash to short and long-term investments amounted to $206 million and $(283) million during the third quarter of 2023 and the first nine months of 2023, respectively.

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.

	Third Quarter			First Nine Months		
(Canadian dollars in millions)	**2023**	**2022**	**$ Change**	**2023**	**2022**	**$ Change**
Net cash flows from operating activities	**$ 408**	**$ 290**	**$ 118**	**3,335**	**$ 1,721**	**$ 1,614**
Additions to property, equipment and intangible assets	(273)	(333)	60	(1,248)	(1,245)	(3)
Free cash flow [(1)]	**$ 135**	**$ (43)**	**$ 178**	**2,087**	**$ 476**	**$ 1,611**

(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.

7.5 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS

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. This purchase agreement substitutes for a previously announced agreement to purchase two Boeing 777 freighter aircraft and, as a result, Air Canada will no longer take delivery of the two freighters.

Airbus A321XLR Aircraft

Air Canada is acquiring 25 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in 2025 with the final aircraft expected to arrive in 2028. Of the 25 total aircraft, 15 aircraft will be leased and 10 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 15 additional aircraft between 2027 and 2030.

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 2026.

Boeing 737 MAX

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

Boeing 787-9 Aircraft

In 2021, Air Canada exercised options for the purchase of three Boeing 787-9 aircraft. One Boeing 787-9 aircraft was delivered in April 2023. The remaining two aircraft are now scheduled to be delivered in 2024.

Boeing 767 Freighter Aircraft

Air Canada expects to have a fleet of seven Boeing 767 freighters by the end of 2023 and expects to add another three Boeing 767 freighters between 2024 and 2025.

Heart Aerospace ES-30 Electric Aircraft

In the third quarter of 2022, Air Canada finalized a purchase agreement for 30 ES-30 electric-hybrid aircraft, under development by Heart Aerospace. Due to the developing design and specifications of the aircraft, the final cost is not yet determinable and is not included in the table below, however, the agreement provides for a price cap. The regional aircraft are expected to enter service in 2028. In addition to the purchase agreement, Air Canada has entered into an agreement providing for a $7 million (US$5 million) investment by Air Canada in Heart Aerospace.

Capital Commitments

The estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at September 30, 2023, amounted to $11,314 million.

(Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Committed expenditures	$ 100	$ 1,914	$ 2,053	$ 3,948	$ 1,299	$ 2,000	$ 11,314
Projected planned but uncommitted expenditures	55	156	410	577	486	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	132	520	703	616	450	Not available	Not available
Total projected expenditures (2)	**$ 287**	**$ 2,590**	**$ 3,166**	**$ 5,141**	**$ 2,235**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2026 and beyond are not yet determinable, however, estimates of $616 million and $450 million have been made for 2026 and 2027, respectively.

(2) U.S. dollar amounts are converted using the September 30, 2023, closing exchange rate of US$1=C$1.3577. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.

7.6 PENSION FUNDING OBLIGATIONS

At January 1, 2023, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $4.6 billion.

Air Canada's pension funding obligations are discussed in section 8.7 "Pension Funding Obligations" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

7.7 CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at September 30, 2023, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Principal							
Long-term debt [(1)]	$ 171	$ 378	$ 1,129	$ 2,405	$ 1,054	$ 6,941	$ 12,078
Lease liabilities	134	509	493	335	275	921	2,667
Total principal obligations	**$ 305**	**$ 887**	**$ 1,622**	**$ 2,740**	**$ 1,329**	**$ 7,862**	**$ 14,745**
Interest							
Long-term debt	123	645	617	557	459	448	2,849
Lease liabilities	36	128	101	78	62	332	737
Total interest obligations	**$ 159**	**$ 773**	**$ 718**	**$ 635**	**$ 521**	**$ 780**	**$ 3,586**
Total long-term debt and lease liabilities	**$ 464**	**$ 1,660**	**$ 2,340**	**$ 3,375**	**$ 1,850**	**$ 8,642**	**$ 18,331**
Committed capital expenditures	**$ 100**	**$ 1,914**	**$ 2,053**	**$ 3,948**	**$ 1,299**	**$ 2,000**	**$ 11,314**
Total contractual obligations [(2)]	**$ 564**	**$ 3,574**	**$ 4,393**	**$ 7,323**	**$ 3,149**	**$ 10,642**	**$ 29,645**

(1) Assumes the principal balance of the convertible notes, $372 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 accessed in 2021 to support customer refunds of non-refundable tickets is included.

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

7.8 SHARE INFORMATION

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

	September 30, 2023	December 31, 2022
Issued and outstanding shares		
Class A variable voting shares	81,802,286	72,431,001
Class B voting shares	276,666,721	285,931,257
Total issued and outstanding shares	**358,469,007**	**358,362,258**
Potential shares		
Convertible notes	17,856,599	17,856,599
Stock options	6,532,681	5,304,745
Total shares potentially issuable	**24,389,280**	**23,161,344**
Total outstanding and potentially issuable shares	**382,858,287**	**381,523,602**

8. QUARTERLY FINANCIAL DATA

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

(Canadian dollars in millions, except per share figures)	2021	2022				2023		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenues	$ 2,731	$ 2,573	$ 3,981	5,322	4,680	4,887	$ 5,427	$ 6,344
Operating expenses	3,234	3,123	4,234	4,678	4,708	4,904	4,625	4,929
Operating income (loss)	**(503)**	**(550)**	**(253)**	**644**	**(28)**	**(17)**	**802**	**1,415**
Non-operating income (expense)	**(114)**	**(264)**	**(99)**	**(1,148)**	**174**	**(6)**	**(6)**	**(98)**
Income (loss) before income taxes	**(617)**	**(814)**	**(352)**	**(504)**	**146**	**(23)**	**796**	**1,317**
Income tax recovery (expense)	124	(160)	(34)	(4)	22	27	42	(67)
Net income (loss)	**$ (493)**	**$ (974)**	**$ (386)**	**$ (508)**	**$ 168**	**$ 4**	**$ 838**	**$ 1,250**
Basic earnings (loss) per share	**$ (1.38)**	**$ (2.72)**	**$ (1.08)**	**$ (1.42)**	**$ 0.47**	**$ 0.01**	**$ 2.34**	**$ 3.49**
Diluted earnings (loss) per share	**$ (1.38)**	**$ (2.72)**	**$ (1.60)**	**$ (1.42)**	**$ 0.41**	**$ (0.03)**	**$ 2.34**	**$ 3.08**
Adjusted EBITDA (1)	**$ 22**	**$ (143)**	**$ 154**	**$ 1,057**	**$ 389**	**$ 411**	**$ 1,220**	**$ 1,830**
Adjusted pre-tax income (loss) (1)	**$ (574)**	**$ (740)**	**$ (447)**	**$ 446**	**$ (211)**	**$ (194)**	**$ 656**	**$ 1,278**
Adjusted net income (loss) (1)	**$ (577)**	**$ (747)**	**$ (455)**	**$ 431**	**$ (217)**	**$ (188)**	**$ 664**	**$ 1,281**
Adjusted earnings (loss) per share – diluted (1)	**$ (1.61)**	**$ (2.09)**	**$ (1.12)**	**$ 1.07**	**$ (0.61)**	**$ (0.53)**	**$ 1.85**	**$ 3.41**

(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 2022 MD&A. Except as discussed below, 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 third quarter of 2023.

Fuel Price Risk Management

In October 2023, Air Canada hedged approximately 45% of anticipated purchases of jet fuel for the fourth quarter of 2023 at an average jet fuel cap price of US$0.7231 per litre. Air Canada's contracts to hedge anticipated jet fuel purchases are comprised of jet fuel call options.

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2022 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Additional information on Air Canada's accounting policies is provided in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2023.

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 2022 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 2022 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

13. RELATED PARTY TRANSACTIONS

As at September 30, 2023, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those 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 2022 MD&A. There have been no material changes to Air Canada's risk factors from what was disclosed at that time.

Due to the impact of the COVID-19 pandemic, Air Canada did not meet a wide-body benchmark as to its number of wide-body aircraft under the long-term arrangement it concluded in 2014 with the Air Canada Pilots Association, the union then representing Air Canada's pilots (which merged with the Air Line Pilots Association (ALPA) in the second quarter of 2023). As a result, in the second quarter of 2023, ALPA gave Air Canada notice to commence bargaining, and the current collective agreement expired on September 29, 2023.

15. CONTROLS AND PROCEDURES

Air Canada's controls and procedures are summarized in section 19 "Controls and Procedures" of Air Canada's 2022 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 the 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.

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, impairment of assets 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 that some airlines, without comparable cargo businesses, may not incur. Air Canada had six Boeing 767 dedicated freighter aircraft in its operating fleet as at September 30, 2023, compared to two Boeing 767 dedicated freighter aircraft in service as at September 30, 2022. These costs do not generate ASMs and, therefore, excluding these costs from operating expense results provides for a more meaningful comparison of the passenger airline business across periods.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	Third Quarter			First Nine Months		
	2023	2022	Change	2023	2022	Change
Operating expense – GAAP	**$ 4,929**	**$ 4,678**	**$ 251**	**$ 14,458**	**$ 12,035**	**$ 2,423**
Adjusted for:						
Aircraft fuel	(1,365)	(1,617)	252	(3,927)	(3,817)	(110)
Ground package costs	(99)	(80)	(19)	(543)	(311)	(232)
Impairment of assets	-	-	-	-	(4)	4
Freighter costs (excluding fuel)	(41)	(26)	(15)	(111)	(59)	(52)
Operating expense, adjusted for the above-noted items	**$ 3,424**	**$ 2,955**	**$ 469**	**9,877**	**7,844**	**2,033**
ASMs (millions)	**28,060**	**25,562**	**9.8%**	**74,573**	**60,190**	**23.9%**
Adjusted CASM (cents)	**¢ 12.20**	**¢ 11.56**	**¢ 0.64**	**¢ 13.24**	**¢ 13.03**	**¢ 0.21**

EBITDA and Adjusted EBITDA

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 assess 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. In calculating adjusted EBITDA, Air Canada excludes impairment of assets as this may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

Adjusted EBITDA Margin

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 assess 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.

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

(Canadian dollars in millions, except where indicated)	Third Quarter			First Nine Months		
	2023	2022	Change	2023	2022	Change
Operating income (loss) – GAAP	**$ 1,415**	**$ 644**	**$ 771**	**$ 2,200**	**$ (159)**	**$ 2,359**
Add back:						
Depreciation and amortization	415	413	2	1,261	1,223	38
EBITDA	**$ 1,830**	**$ 1,057**	**$ 773**	**$ 3,461**	**$ 1,064**	**$ 2,397**
Remove:						
Impairment of assets	-	-	-	-	4	(4)
Adjusted EBITDA	**$ 1,830**	**$ 1,057**	**$ 773**	**$ 3,461**	**$ 1,068**	**$ 2,393**
Operating revenues	**$ 6,344**	**$ 5,322**	**$ 1,022**	**$ 16,658**	**$ 11,876**	**$ 4,782**
Operating margin (%)	**22.3**	**12.1**	**10.2 pp**	**13.2**	**(1.3)**	**14.5 pp**
Adjusted EBITDA margin (%)	**28.8**	**19.9**	**8.9 pp**	**20.8**	**9.0**	**11.8 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 impairment of assets, 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 disposal of assets, and 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:

	Third Quarter			First Nine Months		
(Canadian dollars in millions)	**2023**	**2022**	**$ Change**	**2023**	**2022**	**$ Change**
Income (loss) before income taxes – GAAP	**$ 1,317**	**$ (504)**	**$ 1,821**	**$ 2,090**	**$ (1,670)**	**$ 3,760**
Adjusted for:						
Impairment of assets	-	-	-	-	4	(4)
Foreign exchange (gain) loss	61	951	(890)	(317)	1,048	(1,365)
Net interest relating to employee benefits	(6)	(9)	3	(18)	(17)	(1)
(Gain) loss on financial instruments recorded at fair value	(101)	25	(126)	(24)	(89)	65
(Gain) loss on debt settlement	7	(17)	24	9	(17)	26
Adjusted pre-tax income (loss)	**$ 1,278**	**$ 446**	**$ 832**	**$ 1,740**	**$ (741)**	**$ 2,481**

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 impairment of assets, 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 the sale and leaseback of assets, gains or losses on debt settlements and modifications, and 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:

	Third Quarter			First Nine Months		
(Canadian dollars in millions)	**2023**	**2022**	**$ Change**	**2023**	**2022**	**$ Change**
Net income (loss) – GAAP	**$ 1,250**	**$ (508)**	**$ 1,758**	**$ 2,092**	**$ (1,868)**	**$ 3,960**
Adjusted for:						
Impairment of assets	-	-	-	-	4	(4)
Foreign exchange (gain) loss	61	951	(890)	(317)	1,048	(1,365)
Net interest relating to employee benefits	(6)	(9)	3	(18)	(17)	(1)
(Gain) loss on financial instruments recorded at fair value	(101)	25	(126)	(24)	(89)	65
(Gain) loss on debt settlement	7	(17)	24	9	(17)	26
Income tax, including for the above reconciling items (1)	70	(11)	81	15	168	(153)
Adjusted net income (loss)	**$ 1,281**	**$ 431**	**$ 850**	**$ 1,757**	**$ (771)**	**$ 2,528**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	376	404	(28)	376	358	18
Adjusted earnings (loss) per share – diluted	**$ 3.41**	**$ 1.07**	**$ 2.34**	**$ 4.67**	**$ (2.15)**	**$ 6.82**

(1) In 2023, 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 that was recorded through Air Canada's consolidated statement of operations. This expense is removed from adjusted net income (loss). In comparison, a deferred income tax expense was removed from adjusted net income (loss) for the year 2022.

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.

	Third Quarter		First Nine Months	
(In millions)	**2023**	**2022**	**2023**	**2022**
Weighted average number of shares outstanding – basic	**358**	**358**	**358**	**358**
Effect of dilution	18	46	18	-
Weighted average number of shares outstanding – diluted	**376**	**404**	**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, impairment of assets 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, excluding impairment of assets. 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 impairment of assets, 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 impairment of assets, 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.

Atlantic – In reference to passenger and cargo revenues, it means 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 – In reference to passenger and cargo revenues, it means 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 – In reference to passenger and cargo revenues, it means revenues from flights with origins and destinations principally in Central and South America, the Caribbean and Mexico.

Pacific – In reference to passenger and cargo revenues, it means 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 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.

Yield – Refers to average passenger revenue per RPM.