Third Quarter 2017

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

October 25, 2017

AIR CANADA

A STAR ALLIANCE MEMBER

TABLE OF CONTENTS

1. HIGHLIGHTS

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

	Third Quarter			First Nine Months		
(Canadian dollars in millions, except where indicated)	**2017**	**2016**	**$ Change**	**2017**	**2016**	**$ Change**
Financial Performance Metrics						
Operating revenues	4,880	4,451	429	12,432	11,252	1,180
Operating income	1,004	896	108	1,231	1,327	(96)
Non-operating income (expense)	(11)	(128)	117	28	(272)	300
Net income	1,786	768	1,018	2,049	1,055	994
Adjusted net income (1)	950	821	129	1,081	1,109	(28)
Operating margin %	20.6%	20.1%	0.5 pp	9.9%	11.8%	(1.9) pp
EBITDAR (excluding special items) (1)	1,388	1,248	140	2,400	2,313	87
EBITDAR margin (excluding special items) % (1)	28.4%	28.0%	0.4 pp	19.3%	20.6%	(1.3) pp
Unrestricted liquidity (2)	4,509	3,715	794	4,509	3,715	794
Net cash flows from operating activities	493	438	55	2,349	2,070	279
Free cash flow (1)	324	315	9	1,099	(270)	1,369
Adjusted net debt (1)	5,939	6,819	(880)	5,939	6,819	(880)
Return on invested capital ("ROIC") % (1)	14.1%	18.7%	(4.6) pp	14.1%	18.7%	(4.6) pp
Leverage ratio (1)	2.1	2.5	(0.4)	2.1	2.5	(0.4)
Diluted earnings per share	$ 6.44	$ 2.74	$ 3.70	$ 7.39	$ 3.72	$ 3.67
Adjusted earnings per share – diluted (1)	$ 3.43	$ 2.93	$ 0.50	$ 3.90	$ 3.92	$ (0.02)
Operating Statistics (3)			**% Change**			**% Change**
Revenue passenger miles ("RPM") (millions)	26,472	24,328	8.8	65,741	58,838	11.7
Available seat miles ("ASM") (millions)	31,050	28,458	9.1	79,301	70,635	12.3
Passenger load factor %	85.3%	85.5%	(0.2) pp	82.9%	83.3%	(0.4) pp
Passenger revenue per RPM ("Yield") (cents)	16.6	16.6	0.4	16.6	16.8	(1.7)
Passenger revenue per ASM ("PRASM") (cents)	14.2	14.2	0.1	13.7	14.0	(2.2)
Operating revenue per ASM (cents)	15.7	15.6	0.5	15.7	15.9	(1.6)
Operating expense per ASM ("CASM") (cents)	12.5	12.5	(0.1)	14.1	14.1	0.5
Adjusted CASM (cents) (1)	9.2	9.4	(2.1)	10.4	10.8	(3.6)
Average number of full-time equivalent ("FTE") employees (thousands) (4)	28.3	26.5	6.5	27.7	26.0	6.3
Aircraft in operating fleet at period-end	392	382	2.6	392	382	2.6
Average fleet utilization (hours per day)	11.6	11.4	1.4	10.6	10.4	1.6
Seats dispatched (thousands)	17,056	16,245	5.0	46,298	43,262	7.0
Aircraft frequencies (thousands)	155.7	155.5	0.1	431.2	428.9	0.5
Average stage length (miles) (5)	1,820	1,752	3.9	1,713	1,633	4.9
Fuel cost per litre (cents)	59.4	55.2	7.5	61.1	52.2	17.0
Fuel litres (thousands)	1,583,984	1,457,725	8.7	4,077,777	3,676,755	10.9
Revenue passengers carried (thousands) (6)	13,993	13,327	5.0	36,812	34,130	7.9

(1) Adjusted net income, adjusted earnings per share – diluted, EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent), EBITDAR margin, leverage ratio, free cash flow, ROIC and adjusted CASM are each non-GAAP financial measures and adjusted net debt is an additional GAAP measure. Refer to sections 6 and 14 of this MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures. As referenced in the table above, special items are excluded from Air Canada's reported EBITDAR calculations. Refer to section 4 of this MD&A for information on special items.

(2) Unrestricted liquidity refers to the sum of cash, cash equivalents, short-term investments and the amount of available credit under Air Canada's revolving credit facilities. At September 30, 2017, unrestricted liquidity was comprised of cash and short-term investments of $4,135 million and undrawn lines of credit of $374 million. At September 30, 2016, unrestricted liquidity was comprised of cash and short-term investments of $3,434 million and undrawn lines of credit of $281 million.

(3) Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers (such as Jazz Aviation LP ("Jazz"), Sky Regional Airlines Inc. ("Sky Regional"), Air Georgian Limited ("Air Georgian") and Exploits Valley Air Services Ltd. ("EVAS")) operating under capacity purchase agreements with Air Canada.

(4) Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as Jazz, Sky Regional, Air Georgian and EVAS) operating under capacity purchase agreements with Air Canada.

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

(6) Revenue passengers carried 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.

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, Touram Limited Partnership, doing business as Air Canada Vacations® ("Air Canada Vacations") and Air Canada rouge LP, doing business as Air Canada Rouge® ("Air Canada Rouge"). This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the third quarter of 2017. 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 2017, Air Canada's 2016 annual audited consolidated financial statements and notes and Air Canada's 2016 MD&A dated February 17, 2017 ("Air Canada's 2016 MD&A"). 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 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 15 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of October 24, 2017. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

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 17 "Risk Factors" of Air Canada's 2016 MD&A and section 12 of this MD&A. Air Canada issued a news release dated October 25, 2017 reporting on its results for the third quarter of 2017. This news release is available on Air Canada's website at **www.aircanada.com** and on SEDAR's website at **www.sedar.com**. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at **www.sedar.com**.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Such forward-looking statements are included in this MD&A and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be 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 strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "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, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, our ability to successfully achieve or sustain positive net profitability or to realize our initiatives and objectives, currency exchange, industry, market, credit, economic and geopolitical conditions, energy prices, competition, our ability to successfully implement appropriate strategic initiatives or reduce operating costs, our dependence on technology, cybersecurity risks, our ability to pay our indebtedness and secure financing, war, terrorist acts, epidemic diseases, our dependence on key suppliers including regional carriers and Aimia Canada Inc., our success in transitioning from the Aeroplan program and launching our new loyalty program, casualty losses, employee and labour relations and costs, our ability to preserve and grow our brand, pension issues, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), limitations due to restrictive covenants, insurance issues and costs, our dependence on Star Alliance, interruptions of service, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties and our ability to attract and retain required personnel, as well as the factors identified throughout Air Canada's public disclosure file available at **www.sedar.com** and, in particular, those identified in section 17 "Risk Factors" of Air Canada's 2016 MD&A and section 12 of this MD&A. 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 as a result 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 relatively modest Canadian GDP growth for 2017 and 2018. Air Canada also expects that the Canadian dollar will trade, on average, at C$1.24 per U.S. dollar in the fourth quarter of 2017 and at C$1.29 per U.S. dollar for the full year 2017 and that the price of jet fuel (taking the impact of fuel hedging into account) will average 63 CAD cents per litre in the fourth quarter of 2017 and 61 CAD cents per litre for the full year 2017.

INTELLECTUAL PROPERTY

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3. OVERVIEW

On a GAAP basis, Air Canada reported record third quarter 2017 operating income of $1,004 million compared to third quarter 2016 operating income of $896 million. Air Canada reported record net income of $1,786 million or $6.44 per diluted share in the third quarter of 2017 versus net income of $768 million or $2.74 per diluted share in the same quarter in 2016. In the third quarter of 2017, Air Canada recorded a net income tax recovery of $793 million on its consolidated statement of operations. Refer to sections 4 "Results of Operations" and 9 "Accounting Policies" of this MD&A for additional information. Refer also to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

In the third quarter of 2017, Air Canada reported record EBITDAR of $1,388 million compared to EBITDAR of $1,248 million in the third quarter of 2016. The airline reported a record third quarter 2017 EBITDAR margin of 28.4% versus a third quarter 2016 EBITDAR margin of 28.0%. Air Canada reported record adjusted net income of $950 million or $3.43 per diluted share in the third quarter of 2017 versus adjusted net income of $821 million or $2.93 per diluted share in the third quarter of 2016. The net income tax recovery of $793 million is excluded from adjusted net income as it is a one-time recognition of previously unrecognized income tax assets. Commencing in the fourth quarter of 2017, on a prospective basis, adjusted net income will include the tax effect of reconciling items included in the measurement of adjusted net income. EBITDAR, adjusted net income and adjusted earnings per share are non-GAAP financial measures. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

Financial summary

The following is an overview of Air Canada's results of operations and financial position for the third quarter of 2017 compared to the third quarter of 2016.

- Record operating revenues of $4,880 million in the third quarter of 2017, an increase of $429 million or 10% from the third quarter of 2016. On capacity growth of 9.1%, record passenger revenues of $4,478 million in the third quarter of 2017 increased $372 million or 9.1% from the third quarter of 2016.

- Operating expenses of $3,876 million in the third quarter of 2017, an increase of $321 million or 9% from the third quarter of 2016. CASM decreased 0.1% from the third quarter of 2016. On an adjusted basis, CASM decreased 2.1% from the third quarter of 2016, in line with the 1.5% to 2.5% decrease forecasted in Air Canada's news release dated August 1, 2017. Adjusted CASM is a non-GAAP financial measure. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

- Adjusted net debt of $5,939 million, a decrease of $1,151 million from December 31, 2016, reflecting the impact of higher cash and short-term investment balances. Refer to section 6.2 "Adjusted Net Debt" of this MD&A for additional information.

- The airline's leverage ratio (adjusted net debt to trailing 12-month EBITDAR) was 2.1 at September 30, 2017 versus a ratio of 2.6 at December 31, 2016. Leverage ratio is a non-GAAP financial measure. Refer to section 6.2 "Adjusted Net Debt" and section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

- Record net cash flows from operating activities of $493 million in the third quarter of 2017, an improvement of $55 million from the third quarter of 2016. Record free cash flow of $324 million in the third quarter of 2017 improved $9 million from the third quarter of 2016 as the impact of higher cash flows from operating activities versus the same quarter in 2016 was mostly offset by a higher level of net capital expenditures year-over-year. Refer to section 6.4 "Consolidated Cash Flow Movements" of this MD&A for additional information. Free cash flow is a non-GAAP financial measure. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

- Return on invested capital ("ROIC") for the 12 months ended September 30, 2017 of 14.1% versus 18.7% for the 12 months ended September 30, 2016. The decrease in ROIC was mainly due to higher retained earnings. ROIC is a non-GAAP financial measure. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

4. RESULTS OF OPERATIONS

The following table and discussion provides and compares results of Air Canada for the periods indicated:

(Canadian dollars in millions, except per share figures)	Third Quarter				First Nine Months			
	2017	2016	Change $	Change %	2017	2016	Change $	Change %
Operating revenues								
Passenger	$ 4,478	$ 4,106	$ 372	9	$ 11,090	$ 10,113	$ 977	10
Cargo	179	130	49	38	467	357	110	31
Other	223	215	8	4	875	782	93	12
Total revenues	**4,880**	**4,451**	**429**	**10**	**12,432**	**11,252**	**1,180**	**10**
Operating expenses								
Aircraft fuel	832	708	124	18	2,192	1,681	511	30
Regional airlines expense								
Aircraft fuel	109	96	13	14	300	237	63	27
Other	553	543	10	2	1,642	1,549	93	6
Wages, salaries and benefits	690	658	32	5	1,997	1,877	120	6
Airport and navigation fees	264	247	17	7	704	656	48	7
Aircraft maintenance	241	230	11	5	695	694	1	-
Depreciation, amortization and impairment	241	220	21	10	711	604	107	18
Sales and distribution costs	204	179	25	14	608	531	77	15
Ground package costs	73	72	1	1	432	388	44	11
Aircraft rent	125	118	7	6	377	342	35	10
Food, beverages and supplies	112	104	8	8	294	267	27	10
Communications and IT	63	56	7	13	192	182	10	5
Special items	-	-	-	-	30	-	30	100
Other	369	324	45	14	1,027	917	110	12
Total operating expenses	**3,876**	**3,555**	**321**	**9**	**11,201**	**9,925**	**1,276**	**13**
Operating income	**1,004**	**896**	**108**		**1,231**	**1,327**	**(96)**	
Non-operating income (expense)								
Foreign exchange gain (loss)	44	(42)	86		182	(9)	191	
Interest income	16	12	4		42	35	7	
Interest expense	(73)	(97)	24		(232)	(291)	59	
Interest capitalized	9	12	(3)		27	50	(23)	
Net financing expense relating to employee benefits	(15)	(17)	2		(47)	(52)	5	
Gain (loss) on financial instruments recorded at fair value	17	6	11		24	(5)	29	
Gain on sale and leaseback of assets	-	-	-		52	19	33	
Loss on debt settlements	(3)	-	(3)		(3)	(7)	4	
Other	(6)	(2)	(4)		(17)	(12)	(5)	
Total non-operating income (expense)	**(11)**	**(128)**	**117**		**28**	**(272)**	**300**	
Income before income taxes	**993**	**768**	**225**		**1,259**	**1,055**	**204**	
Recovery of income taxes	793	-	793		790	-	790	
Net income	**$ 1,786**	**$ 768**	**$1,018**		**$ 2,049**	**$ 1,055**	**$ 994**	
Diluted earnings per share	**$ 6.44**	**$ 2.74**	**$ 3.70**		**$ 7.39**	**$ 3.72**	**$ 3.67**	
EBITDAR [(1)]	**$ 1,388**	**$ 1,248**	**$ 140**		**$ 2,400**	**$ 2,313**	**$ 87**	
Adjusted net income [(1)]	**$ 950**	**$ 821**	**$ 129**		**$ 1,081**	**$ 1,109**	**$ (28)**	
Adjusted earnings per share – diluted [(1)]	**$ 3.43**	**$ 2.93**	**$ 0.50**		**$ 3.90**	**$ 3.92**	**$ (0.02)**	

(1) *EBITDAR, adjusted net income and adjusted earnings per share – diluted are non-GAAP financial measures. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.*

System passenger revenues

In the third quarter of 2017, system passenger revenues of $4,478 million increased $372 million or 9.1% from the third quarter of 2016 on traffic growth of 8.8% and, to a lesser extent, a yield improvement of 0.4%. On a stage-length adjusted basis, yield increased 2.6% when compared to the same quarter in 2016.

In the third quarter of 2017, business cabin system revenues increased $90 million or 13.7% from the third quarter of 2016 on traffic and yield growth of 8.3% and 5.0%, respectively.

The table below provides passenger revenue by geographic region for the third quarter of 2017 and the third quarter of 2016.

Passenger Revenue (Canadian dollars in millions)	**Third Quarter 2017**	**Third Quarter 2016**	**$ Change**	**% Change**
Canada	$ 1,353	$ 1,314	$ 39	3.0
U.S. transborder	854	791	63	8.0
Atlantic	1,338	1,136	202	17.7
Pacific	715	676	39	5.7
Other	218	189	29	15.3
System	**$ 4,478**	**$ 4,106**	**$ 372**	**9.1**

The table below provides year-over-year percentage changes in passenger revenues and operating statistics by geographic region for the third quarter of 2017 versus the third quarter of 2016.

Third Quarter 2017 versus Third Quarter 2016	**Passenger Revenue % change**	**Capacity (ASMs) % Change**	**Traffic (RPMs) % Change**	**Passenger Load Factor pp Change**	**Yield % Change**	**PRASM % Change**
Canada	3.0	1.5	1.0	(0.4)	2.2	1.7
U.S. transborder	8.0	10.9	9.3	(1.2)	(1.0)	(2.4)
Atlantic	17.7	13.3	13.7	0.3	3.5	3.9
Pacific	5.7	10.1	9.4	(0.6)	(3.4)	(4.0)
Other	15.3	8.4	10.1	1.4	4.4	6.1
System	**9.1**	**9.1**	**8.8**	**(0.2)**	**0.4**	**0.1**

The table below provides year-over-year percentage changes in system passenger revenues and operating statistics for the third quarter of 2017 and each of the previous four quarters.

System	**Year-over-Year by Quarter (% Change)**				
	Q3'16	**Q4'16**	**Q1'17**	**Q2'17**	**Q3'17**
Passenger revenues	10.5	7.0	8.1	11.9	9.1
Capacity (ASMs)	20.9	17.1	15.4	13.5	9.1
Traffic (RPMs)	18.9	15.3	14.0	13.6	8.8
Passenger load factor (pp change)	(1.5)	(1.2)	(1.0)	0.1	(0.2)
Yield	(7.0)	(7.2)	(5.1)	(1.4)	0.4
PRASM	(8.6)	(8.6)	(6.3)	(1.2)	0.1

Components of the year-over-year change in third quarter system passenger revenues included:

- The 8.8% traffic increase which reflected traffic growth in all markets. The traffic increase included gains in the business and premium economy cabins. Consistent with the airline's objective of increasing global international-to-international connecting traffic through its major Canadian hubs (sixth freedom traffic), the traffic growth in the third quarter of 2017 reflected an increase in connecting traffic via Canada to international destinations.

- The 0.4% system yield increase which reflected:

  - Yield increases in the domestic, Atlantic and Other markets, in large part due to:

    - greater proportional growth of higher-yielding business and premium economy passengers;

    - yield growth in both the business and premium economy cabins;

    - growth in higher-yielding local traffic and an improvement in the overall fare mix;

    - the introduction of seat selection fees on certain international markets; and

    - an increase in airport paid upgrade revenues.

  These factors were partly offset by the following:

  - an increase in average stage length of 3.9%, due to long-haul international expansion, which had the effect of reducing system yield by 2.2 percentage points;

  - the impact of launch pricing to support the introduction of new Pacific services and increased industry capacity and competitive pricing activities on certain Pacific services;

  - the impact of increased industry capacity on U.S. long-haul and short-haul routes;

  - a higher proportion of seats into long-haul leisure markets, led by an increase in lower-cost flights operated by Air Canada Rouge; and

  - a higher proportional growth of lower-yielding sixth freedom traffic in support of the airline's international expansion strategy.

In the first nine months of 2017, system passenger revenues of $11,090 million increased $977 million or 9.7% from the first nine months of 2016.

The table below provides passenger revenue by geographic region for the first nine months of 2017 versus the first nine months of 2016.

Passenger Revenue **(Canadian dollars in millions)**	**First Nine Months 2017**	**First Nine Months 2016**	**$ Change**	**% Change**
Canada	$ 3,445	$ 3,347	$ 98	2.9
U.S. transborder	2,424	2,182	242	11.1
Atlantic	2,760	2,407	353	14.7
Pacific	1,690	1,543	147	9.5
Other	771	634	137	21.7
System	**$ 11,090**	**$ 10,113**	**$ 977**	**9.7**

The table below provides year-over-year percentage changes in passenger revenues and operating statistics by geographic region for the first nine months of 2017 versus the first nine months of 2016.

First Nine Months 2017 versus First Nine Months 2016	**Passenger Revenue % Change**	**Capacity (ASMs) % Change**	**Traffic (RPMs) % Change**	**Passenger Load Factor pp change**	**Yield % Change**	**PRASM % Change**
Canada	2.9	2.4	2.4	0.1	0.7	0.8
U.S. transborder	11.1	11.8	12.3	0.4	(1.0)	(0.5)
Atlantic	14.7	14.4	13.8	(0.4)	0.7	0.2
Pacific	9.5	19.7	16.2	(2.5)	(5.7)	(8.5)
Other	21.7	18.0	20.1	1.6	1.1	3.0
System	**9.7**	**12.3**	**11.7**	**(0.4)**	**(1.7)**	**(2.2)**

Components of the year-over-year change in system passenger revenues in the first nine months of 2017 versus the first nine months of 2016 included:

- The 11.7% traffic increase which reflected traffic growth in all markets. The traffic increase included gains in the business and premium economy cabins as well as incremental connecting traffic via Canada to international destinations.

- The 1.7% yield decrease which reflected:

  - an increase in average stage length of 4.9% which had the effect of reducing system yield by 2.7 percentage points;

  - an unfavourable currency impact of $28 million, mainly attributable to the first quarter of 2017;

  - the effect of launch pricing to support the introduction of new Pacific services and the impact of increased industry capacity and competitive pricing activities on certain Pacific services;

  - a higher proportion of seats into long-haul leisure markets; and

  - a higher proportional growth of lower-yielding sixth freedom traffic in support of the airline's international expansion strategy.

  These factors were partly offset by the following:

  - volume and yield growth in higher-yielding business and premium economy passengers;

  - growth in higher-yielding local traffic and improvements to the overall fare mix; and

  - an increase in preferred seat/advance seat selection and airport paid upgrade revenues.

Domestic passenger revenues

In the third quarter of 2017, domestic passenger revenues of $1,353 million increased $39 million or 3.0% from the third quarter of 2016.

The table below provides year-over-year percentage changes in domestic passenger revenues and operating statistics for the third quarter of 2017 and each of the previous four quarters.

Canada	Year-over-Year by Quarter (% Change)				
	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Passenger revenues	4.8	2.5	1.7	4.0	3.0
Capacity (ASMs)	6.3	5.5	3.2	2.8	1.5
Traffic (RPMs)	8.2	5.7	3.6	3.3	1.0
Passenger load factor (pp change)	1.5	0.1	0.3	0.5	(0.4)
Yield	(3.1)	(3.1)	(1.7)	0.8	2.2
PRASM	(1.4)	(2.9)	(1.3)	1.4	1.7

Components of the year-over-year change in third quarter domestic passenger revenues included:

- The 1.0% traffic increase which reflected traffic growth on all major domestic services. The traffic increase included gains in the business cabin. The year-over-year increase in traffic was due to strong passenger demand on services within Canada as well as incremental connecting traffic to U.S. and international destinations.
- The 2.2% yield increase which reflected yield improvements on most major domestic services and on connecting traffic. The yield increase included gains in the business cabin.

In the first nine months of 2017, domestic passenger revenues of $3,445 million increased $98 million or 2.9% from the first nine months of 2016 on traffic growth of 2.4% and, to a lesser extent, a yield increase of 0.7%.

U.S. transborder passenger revenues

In the third quarter of 2017, U.S. transborder passenger revenues of $854 million increased $63 million or 8.0% from the third quarter of 2016.

The table below provides year-over-year percentage changes in U.S. transborder passenger revenues and operating statistics for the third quarter of 2017 and each of the previous four quarters.

U.S. Transborder	Year-over-Year by Quarter (% Change)				
	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Passenger revenues	14.0	10.1	9.5	16.3	8.0
Capacity (ASMs)	19.3	14.1	9.6	15.2	10.9
Traffic (RPMs)	20.8	15.0	12.0	16.2	9.3
Passenger load factor (pp change)	1.0	0.6	1.8	0.7	(1.2)
Yield	(5.6)	(4.3)	(2.2)	0.3	(1.0)
PRASM	(4.5)	(3.6)	-	1.2	(2.4)

Components of the year-over-year change in third quarter U.S. transborder passenger revenues included:

- The 9.3% traffic increase which reflected traffic growth on all major U.S. transborder services. The traffic increase included gains in the business cabin. The year-over-year increase in traffic was mainly due to strong passenger demand between Canada and the U.S., and growth of international-to-international connecting passenger flows from the U.S. in support of Air Canada's international expansion strategy.

- The 1.0% yield decline which reflected the impact of increased industry capacity on U.S. long-haul and short-haul routes and growth in lower-yielding international-to-international connecting traffic from and to the U.S. This yield decrease was partly offset by yield growth on U.S. sun routes, such as Florida and Hawaii.

In the first nine months of 2017, U.S. transborder passenger revenues of $2,424 million increased $242 million or 11.1% from the first nine months of 2016 on traffic growth of 12.3% partly offset by a yield decline of 1.0%.

Atlantic passenger revenues

In the third quarter of 2017, Atlantic passenger revenues of $1,338 million increased $202 million or 17.7% from the third quarter of 2016.

The table below provides year-over-year percentage changes in Atlantic passenger revenues and operating statistics for the third quarter of 2017 and each of the previous four quarters.

Atlantic	Year-over-Year by Quarter (% Change)				
	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Passenger revenues	10.7	8.3	8.3	14.3	17.7
Capacity (ASMs)	28.1	21.5	19.7	12.6	13.3
Traffic (RPMs)	21.8	19.3	14.4	13.7	13.7
Passenger load factor (pp change)	(4.4)	(1.4)	(3.5)	0.8	0.3
Yield	(9.1)	(9.2)	(5.3)	0.6	3.5
PRASM	(13.6)	(10.9)	(9.5)	1.5	3.9

Components of the year-over-year change in third quarter Atlantic passenger revenues included:

- The 13.7% traffic increase which reflected traffic growth on most major Atlantic services. The overall traffic increase included strong gains in the business and premium economy cabins.

- The 3.5% yield increase which reflected yield improvements on most major Atlantic services, led by gains in the business and premium economy cabins.

In the first nine months of 2017, Atlantic passenger revenues of $2,760 million increased $353 million or 14.7% from the first nine months of 2016 on traffic growth of 13.8% and, to a lesser extent, a yield increase of 0.7%.

Pacific passenger revenues

In the third quarter of 2017, Pacific passenger revenues of $715 million increased $39 million or 5.7% from the third quarter of 2016.

The table below provides year-over-year percentage changes in Pacific passenger revenues and operating statistics for the third quarter of 2017 and each of the previous four quarters.

Pacific	Year-over-Year by Quarter (% Change)				
	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Passenger revenues	19.2	12.1	12.5	12.5	5.7
Capacity (ASMs)	34.8	31.9	30.3	23.2	10.1
Traffic (RPMs)	29.0	23.7	22.5	19.7	9.4
Passenger load factor (pp change)	(3.9)	(5.3)	(5.1)	(2.5)	(0.6)
Yield	(7.6)	(9.3)	(8.1)	(6.0)	(3.4)
PRASM	(11.6)	(15.0)	(13.6)	(8.7)	(4.0)

Components of the year-over-year change in third quarter Pacific passenger revenues included:

- The 9.4% traffic increase which reflected traffic growth on all major Pacific services with the exception of services to Hong Kong and South Korea which were impacted by increased industry capacity.

- The 3.4% yield decline which reflected the effect of launch pricing to support the introduction of new services and the impact of increased industry capacity and competitive pricing activities on certain Pacific services. Growth in lower-yielding international-to-international passenger flows (mainly between Asia and the U.S/Latin America) was also a contributing factor.

In the first nine months of 2017, Pacific passenger revenues of $1,690 million increased $147 million or 9.5% from the first nine months of 2016 on traffic growth of 16.2% partly offset by a yield decline of 5.7%.

Other passenger revenues

In the third quarter of 2017, Other passenger revenues (from routes to and from the Caribbean, Mexico and Central and South America) of $218 million increased $29 million or 15.3% from the third quarter of 2016.

The table below provides year-over-year percentage changes in Other passenger revenues and operating statistics for the third quarter of 2017 and each of the previous four quarters.

Other	Year-over-Year by Quarter (% Change)				
	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Passenger revenues	8.3	7.3	18.8	34.7	15.3
Capacity (ASMs)	12.5	13.2	20.1	24.1	8.4
Traffic (RPMs)	15.1	15.7	22.8	26.4	10.1
Passenger load factor (pp change)	1.9	1.8	1.9	1.5	1.4
Yield	(6.0)	(7.6)	(3.4)	6.5	4.4
PRASM	(3.9)	(5.5)	(1.2)	8.4	6.1

Components of the year-over-year change in third quarter Other passenger revenues included:

- The 10.1% traffic increase which reflected traffic growth on all major services and included gains in all cabins.

- The 4.4% yield increase which reflected yield improvements on all major services and included gains in all cabins.

In the first nine months of 2017, Other passenger revenues of $771 million increased $137 million or 21.7% from the first nine months of 2016 on traffic growth of 20.1% and, to a lesser extent, a yield increase of 1.1%.

Cargo revenues

In the third quarter of 2017, cargo revenues of $179 million increased $49 million or 37.7% from the third quarter of 2016 on traffic and yield growth of 34.7% and 1.6%, respectively. The traffic growth reflected increases in all markets, in part due to the introduction of new international routes. In the third quarter of 2017, both the Atlantic and Pacific markets reflected yield increases versus the same quarter in 2016.

In the first nine months of 2017, cargo revenues of $467 million increased $110 million or 30.7% from the first nine months of 2016 on traffic growth of 34.1% partly offset by a yield decline of 2.6%. A capacity increase of 20.8% in the Pacific market reflected the introduction of new services as well as increased frequencies on existing services. Air freight demand in the Pacific market was strong which resulted in traffic growth significantly surpassing capacity growth in the first nine months of 2017.

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

Cargo Revenue (Canadian dollars in millions)	Third Quarter				First Nine Months			
	2017	2016	Change $	Change %	2017	2016	Change $	Change %
Canada	$ 21	$ 16	$ 5	28.3	$ 55	$ 45	$ 10	22.1
U.S. transborder	10	7	3	41.3	26	20	6	30.0
Atlantic	59	47	12	25.3	155	135	20	14.5
Pacific	75	51	24	47.9	192	130	62	47.7
Other	14	9	5	48.7	39	27	12	44.7
System	**$ 179**	**$ 130**	**$ 49**	**37.7**	**$ 467**	**$ 357**	**$ 110**	**30.7**

Other revenues

Other revenues of $223 million in the third quarter of 2017 and $875 million in the first nine months of 2017 increased $8 million or 4% and $93 million or 12%, respectively, from the same periods in 2016, mainly due to an increase in ground package revenues at Air Canada Vacations and to an increase in passenger and airline-related fees.

CASM and adjusted CASM

The following table compares Air Canada's CASM and Adjusted CASM for the periods indicated.

	Third Quarter				First Nine Months			
			Change				Change	
(cents per ASM)	2017	2016	¢	%	2017	2016	¢	%
Aircraft fuel	2.68	2.49	0.19	7.6	2.76	2.38	0.38	16.0
Regional airlines expense								
Aircraft fuel	0.35	0.34	0.01	2.9	0.38	0.34	0.04	11.8
Other	1.78	1.90	(0.12)	(6.3)	2.07	2.19	(0.12)	(5.5)
Wages and salaries	1.73	1.82	(0.09)	(4.9)	1.91	2.04	(0.13)	(6.4)
Benefits	0.50	0.49	0.01	2.0	0.61	0.61	-	-
Airport and navigation fees	0.85	0.87	(0.02)	(2.3)	0.89	0.93	(0.04)	(4.3)
Aircraft maintenance	0.77	0.81	(0.04)	(4.9)	0.88	0.98	(0.10)	(10.2)
Depreciation, amortization and impairment	0.78	0.77	0.01	1.3	0.90	0.85	0.05	5.9
Sales and distribution costs	0.66	0.63	0.03	4.8	0.77	0.75	0.02	2.7
Ground package costs	0.23	0.25	(0.02)	(8.0)	0.54	0.55	(0.01)	(1.8)
Aircraft rent	0.40	0.41	(0.01)	(2.4)	0.48	0.48	-	-
Food, beverages and supplies	0.36	0.37	(0.01)	(2.7)	0.37	0.38	(0.01)	(2.6)
Communications and IT	0.20	0.20	-	-	0.24	0.26	(0.02)	(7.7)
Special items	-	-	-	-	0.04	-	0.04	-
Other	1.19	1.14	0.05	4.4	1.29	1.31	(0.02)	-
CASM	**12.48**	**12.49**	**(0.01)**	**(0.1)**	**14.13**	**14.05**	**0.08**	**0.5**
Remove:								
Aircraft fuel expense [1], ground package costs at Air Canada Vacations and special items	(3.26)	(3.08)	(0.18)	5.8	(3.73)	(3.26)	(0.47)	(14.4)
Adjusted CASM [2]	**9.22**	**9.41**	**(0.19)**	**(2.1)**	**10.40**	**10.79**	**(0.39)**	**(3.6)**

(1) Includes aircraft fuel expense related to regional airline operations.
(2) Adjusted CASM is a non-GAAP financial measure. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

Operating expenses

In the third quarter of 2017, operating expenses of $3,876 million increased $321 million or 9% from the third quarter of 2016. This increase was mainly driven by the 9.1% capacity growth and higher jet fuel prices. In the third quarter of 2017, the favourable impact of a stronger Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars), when compared to the third quarter of 2016, decreased operating expenses by $48 million (comprised of $36 million relating to aircraft fuel expense and an aggregate of $12 million relating to non-fuel operating expenses).

In the first nine months of 2017, operating expenses of $11,201 million increased $1,276 million or 13% from the first nine months of 2016. This increase was mainly driven by the 12.3% capacity growth and higher jet fuel prices. In the first nine months of 2017, the favourable impact of a stronger Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars), when compared to the first nine months of 2016, decreased operating expenses by $86 million (comprised of $48 million relating to aircraft fuel expense and an aggregate of $38 million relating to non-fuel operating expenses).

Aircraft fuel expense

In the third quarter of 2017, aircraft fuel expense (including fuel expense related to regional airline operations) amounted to $941 million, an increase of $137 million or 17% from the third quarter of 2016. This increase mainly reflected higher jet fuel prices (before the impact of foreign exchange), which accounted for an increase of $110 million and a higher volume of fuel litres consumed, which accounted for an increase of $69 million. These increases were partly offset by a favourable currency impact of $36 million and hedging gains of $6 million.

In the first nine months of 2017, aircraft fuel expense (including fuel expense related to regional airline operations) amounted to $2,492 million, an increase of $574 million or 30% from the first nine months of 2016. This increase reflected higher jet fuel prices (before the impact of foreign exchange), which accounted for an increase of $425 million and a higher volume of fuel litres consumed, which accounted for an increase of $205 million. These increases were partly offset by a favourable currency impact of $48 million and hedging gains of $8 million.

Regional airlines expense

Regional airlines expense of $662 million in the third quarter of 2017 and $1,942 million in the first nine months of 2017 increased $23 million or 4% and $156 million or 9%, respectively, from the same periods in 2016. These increases reflected the impact of higher base jet fuel prices year-over-year, increased flying, which was the result of fleet expansion initiatives in the Air Canada Express fleet, and an increase in engine maintenance expense due to timing of events.

The following table provides a breakdown of Regional airlines expense for the periods indicated:

	Third Quarter				First Nine Months			
(Canadian dollars in millions)	**2017**	**2016**	**Change $**	**Change %**	**2017**	**2016**	**Change $**	**Change %**
Capacity purchase fees	$ 315	$ 313	$ 2	1	$ 937	$ 895	$ 42	5
Aircraft fuel	109	96	13	14	300	237	63	27
Airport and navigation	80	79	1	1	222	218	4	2
Sales and distribution costs	34	36	(2)	(6)	111	106	5	5
Aircraft rent	10	8	2	25	30	23	7	30
Depreciation, amortization and impairment	8	6	2	33	21	17	4	24
Other operating expenses	106	101	5	5	321	290	31	11
Total regional airlines expense	**$ 662**	**$ 639**	**$ 23**	**4**	**$ 1,942**	**$ 1,786**	**$ 156**	**9**

Wages, salaries and benefits expense

Wages and salaries expense of $536 million in the third quarter of 2017 and $1,513 million in the first nine months of 2017 increased $18 million or 3% and $69 million or 5%, respectively, from the same periods in 2016. These increases were mainly due to a higher number of full-time equivalent ("FTE") employees to support the airline's international growth. The average number of FTE employees increased 6.5% in the third quarter of 2017 and 6.3% in the first nine months of 2017 when compared to the same periods in 2016.

Employee benefits expense of $154 million in the third quarter of 2017 and $484 million in the first nine months of 2017 increased $14 million or 10% and $51 million or 12%, respectively, from the same periods in 2016, mainly due to the higher level of FTE employees and, to a lesser extent, the impact of lower discount rates which increased the current service cost of defined benefit pension plans. In the second quarter of 2016, Air Canada recorded a gain on post-employment liabilities which reduced employee benefits expense by $10 million.

Airport and navigation fees

Airport and navigation fees of $264 million in the third quarter of 2017 and $704 million in the first nine months of 2017 increased $17 million or 7% and $48 million or 7%, respectively, from the same periods in 2016, largely due to growth in wide-body and international flying. The favourable impact of Air Canada's agreement with the Greater Toronto Airports Authority, which is allowing the airline to increase international connecting traffic at Toronto Pearson International Airport on a more cost effective basis, and a 6% Nav Canada rate reduction effective September 1, 2016 were offsetting factors.

Aircraft maintenance expense

Aircraft maintenance expense of $241 million in the third quarter of 2017 increased $11 million or 5% from the same quarter in 2016.

Aircraft maintenance expense of $695 million in the first nine months of 2017 increased $1 million from the same period in 2016. The increase, driven by the impact of having additional Boeing 787 aircraft in the fleet which have engines under power-by-the-hour arrangements, was mostly offset by the impact of having a greater number of aircraft leases being extended in 2017 (which has the effect of deferring maintenance provisions) and to more favourable end-of-lease conditions on aircraft lease extensions (which has the effect of reducing maintenance provisions).

The following table provides a breakdown of the more significant items included in maintenance expense for the periods indicated:

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2017	2016	Change $	Change %	2017	2016	Change $	Change %
Technical maintenance	$ 203	$ 196	$ 7	4	$ 618	$ 588	$ 30	5
Maintenance provisions [1]	35	30	5	17	69	94	(25)	(27)
Other	3	4	(1)	(25)	8	12	(4)	(33)
Total aircraft maintenance expense	**$ 241**	**$ 230**	**$ 11**	**5**	**$ 695**	**$ 694**	**$ 1**	**-**

(1) Maintenance provisions relate to return conditions on aircraft leases which are recorded over the term of the lease.

Depreciation, amortization and impairment expense

Depreciation, amortization and impairment expense of $241 million in the third quarter of 2017 and $711 million in the first nine months of 2017 increased $21 million or 10% and $107 million or 18%, respectively, from the same periods in 2016, mainly due to the addition of Boeing 787 aircraft to Air Canada's mainline fleet and to an increase in expenses related to aircraft refurbishment programs.

Sales and distribution costs

Sales and distribution costs of $204 million in the third quarter of 2017 and $608 million in the first nine months of 2017 increased $25 million or 14% and $77 million or 15%, respectively, from the same periods in 2016, reflecting, in large part, a higher volume of ticket sales and a higher proportion of sales through international points-of-sales, which generally results in higher transaction costs, when compared to the same periods in 2016.

Ground package costs

The cost of ground packages at Air Canada Vacations of $73 million in the third quarter of 2017 and $432 million in the first nine months of 2017 increased $1 million or 1% and $44 million or 11%, respectively, from the same periods in 2016. The increase in ground package costs in the first nine months of 2017 was mainly due to higher passenger volumes partly offset by a favourable currency impact when compared to the first nine months of 2016.

Aircraft rent expense

Aircraft rent expense of $125 million in the third quarter of 2017 and $377 million in the first nine months of 2017 increased $7 million or 6% and $35 million or 10%, respectively, from the same periods in 2016, reflecting a greater number of leased aircraft, primarily Boeing 787 aircraft.

Special items

In the first quarter of 2017, Air Canada recorded a provision of $30 million relating to a fine which was reinstated by a decision of the European Commission pertaining to cargo investigations. Air Canada paid the fine in the second quarter of 2017. Air Canada has appealed the decision. Refer to section 12 "Risk Factors" of this MD&A for additional information. No special items were recorded in the first nine months of 2016.

Other expenses

Other expenses of $369 million in the third quarter of 2017 and $1,027 million in the first nine months of 2017 increased $45 million or 14% and $110 million or 12%, respectively, from the same periods in 2016, reflecting, in large part, the capacity growth and the impact of Air Canada's international expansion strategy.

The following table provides a breakdown of the more significant items included in other expenses:

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2017	2016	Change $	Change %	2017	2016	Change $	Change %
Terminal handling	$ 86	$ 64	$ 22	34	$ 227	$ 182	$ 45	25
Crew cycle	55	52	3	6	146	133	13	10
Building rent and maintenance	41	38	3	8	126	114	12	11
Miscellaneous fees and services	45	31	14	45	119	98	21	21
Remaining other expenses	142	139	3	2	409	390	19	5
Total other expenses	**$ 369**	**$ 324**	**$ 45**	**14**	**$ 1,027**	**$ 917**	**$ 110**	**12**

Non-operating income (expense)

Non-operating expense of $11 million in the third quarter of 2017 improved $117 million from the third quarter of 2016. In the first nine months of 2017, non-operating income of $28 million improved $300 million from the same period in 2016.

Factors contributing to the year-over-year improvement in non-operating income included:

- In the third quarter of 2017, gains on foreign exchange amounted to $44 million compared to losses on foreign exchange of $42 million in the third quarter of 2016. Foreign exchange gains on long-term debt of $236 million were largely offset by foreign exchange losses on foreign currency derivatives of $198 million. The gains in the third quarter of 2017 were attributable to the impact of a stronger Canadian dollar at September 30, 2017, when compared to June 30, 2017, on long-term debt and other net monetary liabilities. The September 30, 2017 closing exchange rate was US$1=C$1.2472 while the June 30, 2017 closing exchange rate was US$1=C$1.2964. In the first nine months of 2017, gains on foreign exchange amounted to $182 million compared to losses on foreign exchange of $9 million in the first nine months of 2016. Foreign exchange gains on long-term debt of $448 million were largely offset by foreign exchange losses on foreign currency derivatives of $272 million. The gains in the first nine months of 2017 were attributable to a stronger Canadian dollar at September 30, 2017 when compared to December 31, 2016. The December 31, 2016 closing exchange rate was US$1=C$1.3427.

- A decrease in interest expense of $24 million in the third quarter of 2017 and $59 million in the first nine months of 2017, reflecting, in large part, the impact of the $1.25 billion refinancing transaction concluded in October 2016 and, to a lesser extent, the favourable impact of a stronger Canadian dollar on U.S. dollar debt. Refer to section 9.8 of Air Canada's 2016 MD&A for additional information.

- A gain of $52 million on the sale and leaseback of four Boeing 787-9 aircraft in the first nine months of 2017. In the first nine months of 2016, Air Canada recorded a gain of $19 million on the sale and leaseback of two Boeing 787-9 aircraft.

Income taxes

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, among other aspects, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

In this regard and in connection with the preparation of Air Canada's financial statements for the period ended September 30, 2017, it was determined that it was probable that substantially all of Air Canada's deferred income tax assets, which include non-capital losses, would be realized. Accordingly, a deferred income tax asset of $610 million was recognized as at September 30, 2017, which resulted in a non-cash tax recovery recorded in Air Canada's consolidated statement of operations of $806 million and non-cash tax expense recorded in Air Canada's consolidated statement of comprehensive income of $196 million. In addition, a current income tax expense of $13 million was recorded in the third quarter of 2017 ($16 million for the first nine months of 2017). Refer to section 9 "Accounting Policies" of this MD&A for additional information.

5. FLEET

The following table provides the number of aircraft in Air Canada's operating fleet as at September 30, 2017 and December 31, 2016 as well as Air Canada's planned operating fleet, including aircraft operating and expected to be operated by Air Canada Rouge, as at December 31, 2017 and December 31, 2018.

	Actual			Planned			
Mainline	**December 31, 2016**	**First nine months 2017 fleet changes**	**September 30, 2017**	**Remainder of 2017 fleet changes**	**December 31, 2017**	**2018 fleet changes**	**December 31, 2018**
Wide-body aircraft							
Boeing 787-8	**8**	-	**8**	**-**	**8**	-	**8**
Boeing 787-9	**13**	8	**21**	1	**22**	5	**27**
Boeing 777-300ER	**19**	-	**19**	-	**19**	-	**19**
Boeing 777-200LR	**6**	-	**6**	-	**6**	-	**6**
Boeing 767-300ER	**14**	(4)	**10**	(2)	**8**	(3)	**5**
Airbus A330-300	**8**	-	**8**	-	**8**	-	**8**
Narrow-body aircraft							
Boeing 737 MAX 8	**-**	-	**-**	2	**2**	16	**18**
Airbus A321	**15**	-	**15**	-	**15**	-	**15**
Airbus A320	**42**	-	**42**	-	**42**	-	**42**
Airbus A319	**18**	-	**18**	-	**18**	(8)	**10**
Embraer 190	**25**	-	**25**	-	**25**	-	**25**
Total Mainline	**168**	4	**172**	1	**173**	10	**183**
Air Canada Rouge							
Wide-body aircraft							
Boeing 767-300ER	**20**	4	**24**	-	**24**	1	**25**
Narrow-body aircraft							
Airbus A321	**5**	-	**5**	-	**5**	-	**5**
Airbus A319	**20**	-	**20**	-	**20**	-	**20**
Total Air Canada Rouge	**45**	4	**49**	-	**49**	1	**50**
Total wide-body aircraft	**88**	8	**96**	(1)	**95**	3	**98**
Total narrow-body aircraft	**125**	-	**125**	2	**127**	8	**135**
Total Mainline and Air Canada Rouge	**213**	8	**221**	1	**222**	11	**233**

In addition to the above-referenced five Boeing 787-9 aircraft that Air Canada plans to introduce into its operating fleet in 2018, Air Canada expects to introduce the remaining two of the 37 Boeing 787 aircraft on order in 2019. In addition to the above-referenced 16 Boeing 737 MAX aircraft, Air Canada plans to introduce into its operating fleet in 2018, Air Canada expects to introduce 43 of the 61 Boeing 737 MAX aircraft on order between 2019 and 2021. These aircraft are replacing existing aircraft in Air Canada's mainline fleet.

In June 2016, Air Canada and Bombardier Inc. ("Bombardier") finalized a purchase agreement which includes a firm order for 45 Bombardier C-Series CS300 aircraft and options for an additional 30 Bombardier C-Series CS300 aircraft. Deliveries are scheduled to begin in late 2019 and extend to 2022. The first 25 aircraft on delivery are expected to replace Air Canada's existing mainline fleet of Embraer 190 aircraft, with incremental aircraft supporting Air Canada's hub and network growth.

Air Canada Express

The following table provides, as at September 30, 2017, the number of aircraft operated, on behalf of Air Canada, by Jazz, Sky Regional and other airlines operating flights under the Air Canada Express banner pursuant to capacity purchase agreements with Air Canada. No changes are expected to the Air Canada Express fleet between September 30, 2017 and December 31, 2017.

	As at September 30, 2017			
	Jazz	**Sky Regional**	**Other**	**Total**
Embraer 175	-	25	-	25
Bombardier CRJ-100/200	10	-	14	24
Bombardier CRJ-705/900	21	-	-	21
Bombardier Dash 8-100	16	-	-	16
Bombardier Dash 8-300	26	-	-	26
Bombardier Dash 8-Q400	44	-	-	44
Total Air Canada Express	**117**	**25**	**14**	**156**

Other aircraft with CPA carriers

Air Georgian and EVAS also operate a total of 15 18-passenger Beech 1900 aircraft on behalf of Air Canada pursuant to their capacity purchase agreements with Air Canada.

6. FINANCIAL AND CAPITAL MANAGEMENT

6.1. Financial position

The following table provides a condensed consolidated statement of financial position of Air Canada as at September 30, 2017 and as at December 31, 2016.

(Canadian dollars in millions)	September 30, 2017	December 31, 2016	$ Change
Assets			
Cash, cash equivalents and short-term investments	$ 4,135	$ 2,979	$ 1,156
Other current assets	1,351	1,368	(17)
Current assets	5,486	4,347	1,139
Property and equipment	9,072	8,520	552
Pension assets	1,179	1,153	26
Deposits and other assets	450	468	(18)
Deferred income tax	610	-	610
Intangible assets	313	315	(2)
Goodwill	311	311	-
Total assets	**$ 17,421**	**$ 15,114**	**$ 2,307**
Liabilities			
Current liabilities	$ 5,017	$ 4,424	$ 593
Long-term debt and finance leases	5,560	5,911	(351)
Pension and other benefit liabilities	2,595	2,436	159
Maintenance provisions	968	922	46
Other long-term liabilities	214	202	12
Total liabilities	**14,354**	**13,895**	**459**
Total shareholders' equity	**3,067**	**1,219**	**1,848**
Total liabilities and shareholders' Equity	**$ 17,421**	**$ 15,114**	**$ 2,307**

Movements in current assets and current liabilities are described in section 6.3 "Working Capital" of this MD&A. Long-term debt and finance leases are discussed in sections 6.2 "Adjusted Net Debt" and 6.4 "Consolidated Cash Flow Movements" of this MD&A.

At September 30, 2017, property and equipment amounted to $9,072 million, an increase of $552 million from December 31, 2016. The increase in property and equipment was mainly due to additions of $1,965 million, largely offset by the sale of four Boeing 787 aircraft under sale and operating leaseback transactions and the impact of depreciation expense of $694 million. In the first nine months of 2017, the additions to property and equipment included eight Boeing 787-9 aircraft (four of which were financed under sale and operating leaseback transactions), progress payments on future aircraft deliveries and capitalized maintenance costs.

In the third quarter of 2017, Air Canada recorded a deferred income tax asset of $610 million. Refer to section 9 "Accounting Policies" of this MD&A for additional information.

6.2. Adjusted net debt

The following table reflects Air Canada's adjusted net debt balances as at September 30, 2017 and as at December 31, 2016.

(Canadian dollars in millions, except where indicated)	September 30, 2017	December 31, 2016	$ Change
Total long-term debt and finance leases	$ 5,560	$ 5,911	$ (351)
Current portion of long-term debt and finance leases	769	707	62
Total long-term debt and finance leases, including current portion	6,329	6,618	(289)
Less cash, cash equivalents and short-term investments	(4,135)	(2,979)	(1,156)
Net debt	**$ 2,194**	**$ 3,639**	**$ (1,445)**
Capitalized operating leases (1)	3,745	3,451	294
Adjusted net debt	**$ 5,939**	**$ 7,090**	**$ (1,151)**
EBITDAR (trailing 12 months)	**$ 2,855**	**$ 2,768**	**$ 87**
Adjusted net debt to EBITDAR ratio (2)	**2.1**	**2.6**	**(0.5)**

(1) *Adjusted net debt is an additional GAAP financial measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Air Canada includes capitalized operating leases which is a measure commonly used in the industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent expense by 7. This definition of capitalized operating leases is used by Air Canada and may not be comparable to similar measures presented by other public companies. Aircraft rent (including aircraft rent expense related to regional airline operations) was $535 million for the 12 months ended September 30, 2017 and $493 million for the 12 months ended December 31, 2016.*

(2) *Adjusted net debt to trailing 12-month EBITDAR ratio (also referred to as "leverage ratio" in this MD&A) is a non-GAAP financial measure and is used by Air Canada as a means to measure financial leverage. Leverage ratio is calculated by dividing adjusted net debt by trailing 12-month EBITDAR. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.*

At September 30, 2017, total long-term debt and finance leases (including current portion) of $6,329 million decreased $289 million from December 31, 2016. In the first nine months of 2017, new borrowings of $733 million were more than offset by debt repayments of $574 million and the favourable impact of a stronger Canadian dollar of $448 million, as at September 30, 2017 compared to December 31, 2016, on Air Canada's foreign currency denominated debt (mainly U.S. dollars).

Adjusted net debt amounted to $5,939 million at September 30, 2017, a decrease of $1,151 million from December 31, 2016, reflecting the impact of higher cash and short-term investment balances. In the first nine months of 2017, the impact of a higher capitalized operating lease balance of $294 million was offset by the impact of lower long-term debt and finance lease balances of $289 million.

At September 30, 2017, the adjusted net debt to EBITDAR ratio was 2.1 versus 2.6 as at December 31, 2016.

At September 30, 2017, Air Canada's weighted average cost of capital ("WACC"), on a pre-tax basis, was approximately 8.4% (compared to approximately 9.3% at September 30, 2016). WACC is based on an estimate by management and consists of an estimated cost of equity of 24.0% and an average cost of debt and finance leases of 4.45% (compared to an estimated cost of equity of 24.3% and an average cost of debt and finance leases of 5.2% at September 30, 2016).

6.3. Working capital

The following table provides information on Air Canada's working capital balances as at September 30, 2017 and as at December 31, 2016.

(Canadian dollars in millions)	September 30, 2017	December 31, 2016	$ Change
Cash, cash equivalents and short-term investments	$ 4,135	$ 2,979	$ 1,156
Accounts receivable	789	707	82
Other current assets	562	661	(99)
Total current assets	**$ 5,486**	**$ 4,347**	**$ 1,139**
Accounts payable and accrued liabilities	1,898	1,644	254
Advance ticket sales	2,350	2,073	277
Current portion of long-term debt and finance leases	769	707	62
Total current liabilities	**$ 5,017**	**$ 4,424**	**$ 593**
Net working capital	**$ 469**	**$ (77)**	**$ 546**

The net working capital of $469 million at September 30, 2017 represented an improvement of $546 million from December 31, 2016. The cash flow benefit of positive operating results in the first nine months of 2017 more than offset the impact of capital expenditures of $1,990 million (which resulted in a net cash outflow of $517 million after deducting the financing drawn or sale-leaseback proceeds received relating to the delivery of eight Boeing 787 aircraft). In addition, in the first nine months of 2017, Air Canada exercised purchase and early termination options on four financed A330 aircraft, increasing the number of owned and unencumbered aircraft. The net cash outflows related to these aircraft were also largely offset by the positive cash operating results.

6.4. Consolidated cash flow movements

The following table provides the cash flow movements for Air Canada for the periods indicated:

(Canadian dollars in millions)	Third Quarter 2017	Third Quarter 2016	Third Quarter $ Change	First Nine Months 2017	First Nine Months 2016	First Nine Months $ Change
Net cash flows from operating activities	**$ 493**	**$ 438**	**$ 55**	**$ 2,349**	**$ 2,070**	**$ 279**
Proceeds from borrowings	-	-	-	733	1,308	(575)
Reduction of long-term debt and finance lease obligations	(203)	(80)	(123)	(574)	(468)	(106)
Shares purchased for cancellation	-	(31)	31	(36)	(89)	53
Distributions related to aircraft special purpose leasing entities	-	-	-	-	(32)	32
Issue of shares	4	1	3	7	1	6
Financing fees	(3)	-	(3)	(15)	(2)	(13)
Net cash flows from (used in) financing activities	**$ (202)**	**$ (110)**	**$ (92)**	**$ 115**	**$ 718**	**$ (603)**
Short-term investments	(256)	(144)	(112)	(831)	(337)	(494)
Additions to property, equipment and intangible assets	(169)	(123)	(46)	(1,990)	(2,691)	701
Proceeds from sale of assets	1	55	(54)	3	349	(346)
Proceeds from sale-leaseback of assets	-	-	-	740	351	389
Other	9	15	(6)	8	7	1
Net cash flows used in investing activities	**$ (415)**	**$ (197)**	**$ (218)**	**$ (2,070)**	**$ (2,321)**	**$ 251**
Effect of exchange rate changes on cash and cash equivalents	**$ (29)**	**$ 4**	**$ (33)**	**$ (35)**	**$ (22)**	**$ (13)**
Increase (decrease) in cash and cash equivalents	**$ (153)**	**$ 135**	**$ (288)**	**$ 359**	**$ 445**	**$ (86)**

The following table provides the calculation of free cash flow for Air Canada for the periods indicated:

(Canadian dollars in millions)	Third Quarter 2017	Third Quarter 2016	Third Quarter $ Change	First Nine Months 2017	First Nine Months 2016	First Nine Months $ Change
Net cash flows from operating activities	**$ 493**	**$ 438**	**$ 55**	**$ 2,349**	**$ 2,070**	**$ 279**
Additions to property, equipment and intangible assets, net of proceeds from sale-leaseback transactions	(169)	(123)	(46)	(1,250)	(2,340)	1,090
Free cash flow (1)	**$ 324**	**$ 315**	**$ 9**	**$ 1,099**	**$ (270)**	**$ 1,369**

(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 is able to 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 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

Free cash flow

In the third quarter of 2017, net cash flows from operating activities of $493 million increased $55 million when compared to the same quarter in 2016. This increase was mainly due to the impact of stronger cash operating results partly offset by a higher net cash outflow from working capital. In the third quarter of 2017, free cash flow of $324 million improved $9 million from the third quarter of 2016 as the impact of higher cash flows from operating activities versus the same quarter in 2016 was mostly offset by a higher level of net capital expenditures year-over-year.

In the first nine months of 2017, net cash flows from operating activities of $2,349 million increased $279 million when compared to the same period in 2016. This increase in net cash flows from operating activities was mainly due to the impact of higher cash inflows from working capital, the impact of stronger cash operating results and the impact of lower pension funding payments. The higher cash inflows from working capital was mainly due to the impact of the growth in advance ticket sales and accounts payable and accrued liabilities. In the first nine months of 2017, free cash flow of $1,099 million improved $1,369 million from the first nine months of 2016 due to a lower level of net capital expenditures year-over-year and the impact of higher cash flows from operating activities versus the same period in 2016.

Net cash flows from financing activities

In the third quarter of 2017, reduction of long-term debt and finance lease obligations amounted to $203 million.

In the first nine months of 2017, proceeds from borrowings amounted to $733 million and reduction of long-term debt and finance lease obligations amounted to $574 million.

Refer to sections 6.3 "Working Capital", 6.1 "Financial Position" and 6.2 "Adjusted Net Debt" of this MD&A for additional information.

6.5. Capital expenditures and related financing arrangements

Boeing 787 aircraft

Air Canada has outstanding purchase commitments with The Boeing Company ("Boeing") for eight Boeing 787 aircraft (one of which remains to be delivered in 2017, five in 2018 and two in 2019). Air Canada also has purchase options for 13 Boeing 787 aircraft (entitling Air Canada to purchase aircraft based on previously determined pricing and delivery positions), and purchase rights for 10 Boeing 787 aircraft (entitling Air Canada to purchase aircraft based on Boeing's then current pricing).

Subject to certain conditions, Air Canada has financing commitments covering up to six of the remaining 8 Boeing 787 firm aircraft orders, which are scheduled for delivery by 2019. The financing terms are for 80% of the aircraft delivery price and the term to maturity is 12 years with straight-line principal repayments.

Boeing 737 aircraft

Air Canada has an agreement with Boeing for the purchase of Boeing 737 MAX aircraft which provides for:

- Firm orders for 61 737 MAX aircraft, initially consisting of 737 MAX 8 and 737 MAX 9 aircraft with substitution rights between them as well as for the 737 MAX 7 aircraft.
- Purchase options for 18 Boeing 737 MAX aircraft.
- Certain rights to purchase an additional 30 Boeing 737 MAX aircraft.

Following Air Canada's exercise of certain substitution rights, as at September 30, 2017, the firm orders for the 737 MAX aircraft consist of 50 737 MAX 8 aircraft and 11 737 MAX 9 aircraft.

Deliveries of Boeing 737 MAX aircraft are scheduled to begin in 2017 with two aircraft, with the remaining deliveries between 2018 and 2021, subject to deferral and acceleration rights.

Air Canada has financing commitments, subject to certain conditions, covering all 61 of the Boeing 737 MAX firm aircraft orders. The financing terms are for 80% of the aircraft delivery price and the term to maturity is 10 years with mortgage-style repayments.

Bombardier C-Series CS300 aircraft

In June 2016, Air Canada and Bombardier finalized a purchase agreement which includes a firm order for 45 Bombardier C-Series CS300 aircraft and options for an additional 30 Bombardier CS300 aircraft. Deliveries are scheduled to begin in late 2019 and extend to 2022.

Capital commitments

As outlined in the table below, the estimated aggregate cost of the future firm Boeing 787, Boeing 737 MAX and Bombardier C-Series CS300 aircraft deliveries and other capital purchase commitments as at September 30, 2017 approximates $6,251 million.

(Canadian dollars in millions)	Remainder of 2017	2018	2019	2020	2021	Thereafter	Total
Projected committed expenditures	$ 364	$ 1,666	$ 1,329	$ 1,324	$ 1,008	$ 560	$ 6,251
Projected planned but uncommitted expenditures	32	352	496	291	342	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	45	89	124	125	49	Not available	Not available
Total projected expenditures (2)	**$ 441**	**$ 2,107**	**$ 1,949**	**$ 1,740**	**$ 1,399**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2021 and beyond are not yet determinable, however an estimate of $49 million has been made for 2021.

(2) U.S. dollar amounts are converted using the September 29, 2017 closing exchange rate of US$1=C$1.2472. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at September 29, 2017.

6.6. Pension funding obligations

Based on actuarial valuations, as at January 1, 2017, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $1.9 billion. Based on the January 1, 2017 actuarial valuation results and applicable pension regulations, Air Canada is not permitted to and will not make current service cost payments for 2017 to any of its Canadian registered pension plans. For 2017, Air Canada will make contributions to international and supplemental plans, for total forecasted contributions, on a cash basis, of $90 million.

As at September 30, 2017, taking into account the effect of financial instrument risk management tools, approximately 75% of Air Canada's pension liabilities were matched with fixed income products to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada may continue to increase the percentage of fixed income products matched to pension liabilities, subject to favourable market conditions.

For additional information on Air Canada's pension funding obligations, refer to section 9.7 "Pension Funding Obligations" of Air Canada's 2016 MD&A.

6.7. Contractual obligations

The table below provides Air Canada's contractual obligations as at September 30, 2017, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and finance lease obligations, operating lease obligations and committed capital expenditures.

(Canadian dollars in millions)	Remainder of 2017	2018	2019	2020	2021	Thereafter	Total
Principal							
Long-term debt obligations	$ 192	$ 628	$ 496	$ 531	$ 857	$ 3,500	$ 6,204
Finance lease obligations	10	46	43	46	16	70	231
Total principal obligations	**$ 202**	**$ 674**	**$ 539**	**$ 577**	**$ 873**	**$ 3,570**	**$ 6,435**
Interest							
Long-term debt obligations	$ 63	$ 227	$ 207	$ 184	$ 141	$ 383	$ 1,205
Finance lease obligations	5	18	14	9	6	18	70
Total interest obligations	**$ 68**	**$ 245**	**$ 221**	**$ 193**	**$ 147**	**$ 401**	**$ 1,275**
Total long-term debt and finance lease obligations	**$ 270**	**$ 919**	**$ 760**	**$ 770**	**$ 1,020**	**$ 3,971**	**$ 7,710**
Operating lease obligations	**$ 155**	**$ 583**	**$ 501**	**$ 385**	**$ 281**	**$ 1,037**	**$ 2,942**
Committed capital expenditures	**$ 364**	**$ 1,666**	**$ 1,329**	**$ 1,324**	**$ 1,008**	**$ 560**	**$ 6,251**
Total contractual obligations (1)	**$ 789**	**$ 3,168**	**$ 2,590**	**$ 2,479**	**$ 2,309**	**$ 5,568**	**$ 16,903**

(1) *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 in finance lease obligations due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.*

6.8. 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, 2017	December 31, 2016
Issued and outstanding shares		
Variable voting shares	102,856,785	86,657,994
Voting shares	171,177,157	186,554,808
Total issued and outstanding shares	**274,033,942**	**273,212,802**
Class A variable voting and Class B voting shares potentially issuable		
Stock options	6,598,045	8,985,958
Total shares potentially issuable	**6,598,045**	**8,985,958**
Total outstanding and potentially issuable shares	**280,631,987**	**282,198,760**

Issuer bid

In May 2017, Air Canada received approval from the Toronto Stock Exchange ("TSX") for the renewal of its normal course issuer bid for its Class A variable voting shares and Class B voting shares (collectively the "Shares"), authorizing, between May 31, 2017 and May 30, 2018, the purchase of up to 22,364,183 Shares, representing 10% of the public float as at May 17, 2017. The renewal followed the conclusion of the 2016 normal course issuer bid which expired on May 29, 2017.

In the first nine months of 2017, Air Canada purchased, for cancellation, 2,597,200 Shares at an average cost of $13.88 per Share for aggregate consideration of $36 million. The excess of the cost over the average book value of $28 million was charged to retained earnings. No shares were purchased in the third quarter of 2017. At September 30, 2017, a total of 22,164,183 Shares remain available for repurchase under the existing issuer bid.

In the third quarter of 2016, Air Canada purchased, for cancellation, 3,454,400 Shares at an average cost of $8.97 per Share for aggregate consideration of $31 million (10,368,465 Shares at an average cost of $8.60 per Share for aggregate consideration of $89 million for the nine months ended September 30, 2016). The excess of the cost over the average book value of $21 million ($59 million for the nine months ended September 30, 2016) was charged to retained earnings.

7. QUARTERLY FINANCIAL DATA

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

(Canadian dollars in millions, except where indicated)	2015	2016				2017		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Passenger	$ 2,836	$ 2,864	$ 3,143	$ 4,106	$ 3,035	$ 3,095	$ 3,517	$ 4,478
Cargo	135	116	111	130	155	134	154	179
Other	211	363	204	215	235	413	239	223
Operating revenues	**3,182**	**3,343**	**3,458**	**4,451**	**3,425**	**3,642**	**3,910**	**4,880**
Aircraft fuel	527	446	527	708	598	659	701	832
Regional airlines expense								
Aircraft fuel	81	64	77	96	90	95	96	109
Other	468	505	501	543	532	537	552	553
Wages, salaries & benefits	590	608	611	658	633	644	663	690
Airport and navigation fees	193	198	211	247	203	210	230	264
Aircraft maintenance	210	221	243	230	200	228	226	241
Depreciation, amortization and impairment	160	182	202	220	212	228	242	241
Sales and distribution costs	145	182	170	179	172	205	199	204
Ground package costs	87	231	85	72	101	256	103	73
Aircraft rent	98	112	112	118	120	122	130	125
Food, beverages and supplies	81	77	86	104	82	85	97	112
Communications and IT	50	67	59	56	60	71	58	63
Special items	31	-	-	-	91	30	-	-
Other	303	296	297	324	313	326	332	369
Operating expenses	**3,024**	**3,189**	**3,181**	**3,555**	**3,407**	**3,696**	**3,629**	**3,876**
Operating income (loss)	**158**	**154**	**277**	**896**	**18**	**(54)**	**281**	**1,004**
Foreign exchange gain (loss)	(159)	50	(17)	(42)	(29)	70	68	44
Interest income	13	10	13	12	13	12	14	16
Interest expense	(99)	(96)	(98)	(97)	(83)	(79)	(80)	(73)
Interest capitalized	20	23	15	12	8	9	9	9
Net financing expense relating to employee benefits	(27)	(18)	(17)	(17)	(24)	(16)	(16)	(15)
Gain (loss) on financial instruments recorded at fair value	(3)	(10)	(1)	6	9	-	7	17
Gain on sale and leaseback of assets	-	-	19	-	-	26	26	-
Loss on debt settlements	(13)	(6)	(1)	-	(82)	-	-	(3)
Other	(6)	(6)	(4)	(2)	(8)	(5)	(6)	(6)
Total non-operating income (expense)	**(274)**	**(53)**	**(91)**	**(128)**	**(196)**	**17**	**22**	**(11)**
Income (loss) before income taxes	$ (116)	$ 101	$ 186	$ 768	$ (178)	$ (37)	$ 303	$ 993
Income tax recovery (expense)	-	-	-	-	(1)	-	(3)	793
Net income (loss)	**$ (116)**	**$ 101**	**$ 186**	**$ 768**	**$ (179)**	**$ (37)**	**$ 300**	**$ 1,786**
Diluted earnings (loss) per share	**$ (0.41)**	**$ 0.35**	**$ 0.66**	**$ 2.74**	**$ (0.66)**	**$ (0.14)**	**$ 1.08**	**$ 6.44**
EBITDAR (1)	**$ 456**	**$ 460**	**$ 605**	**$ 1,248**	**$ 455**	**$ 342**	**$ 670**	**$ 1,388**
Adjusted net income (loss) (1)	**$ 116**	**$ 85**	**$ 203**	**$ 821**	**$ 38**	**$ (87)**	**$ 215**	**$ 950**
Adjusted earnings (loss) per share – diluted (1)	**$ 0.40**	**$ 0.30**	**$ 0.72**	**$ 2.93**	**$ 0.14**	**$ (0.32)**	**$ 0.78**	**$ 3.43**

(1) EBITDAR, adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures can be found in "Non-GAAP Financial Measures" of this MD&A and in Air Canada's MD&A reports, available at aircanada.com.

The following table provides a breakdown of the most significant items included in regional airlines expense for the last eight quarters.

(Canadian dollars in millions, except where indicated)	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Capacity purchase fees	$ 282	$ 293	$ 289	$ 313	$ 304	$ 308	$ 314	$ 315
Aircraft fuel	81	64	77	96	90	95	96	109
Airport and navigation	69	68	71	79	72	69	73	80
Sales and distribution costs	28	35	35	36	36	37	40	34
Aircraft rent	5	7	8	8	8	10	10	10
Depreciation, amortization and impairment	4	5	6	6	6	6	7	8
Other operating expenses	80	97	92	101	106	107	108	106
Total regional airlines expense	**$ 549**	**$ 569**	**$ 578**	**$ 639**	**$ 622**	**$ 632**	**$ 648**	**$ 662**

The following table provides major quarterly operating statistics for Air Canada for the last eight quarters.

System	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Passenger PRASM (cents)	14.7	14.1	13.8	14.2	13.5	13.2	13.6	14.2
CASM (cents)	16.0	16.1	14.2	12.5	15.4	16.1	14.3	12.5
Adjusted CASM (cents) (1)	12.2	12.3	11.2	9.4	11.4	11.6	10.8	9.2
Fuel cost per litre (cents) (2)	58.6	48.1	52.2	55.2	59.4	63.2	61.3	59.4

(1) Adjusted CASM is a non-GAAP financial measure. A reconciliation of this measure to a comparable GAAP measure can be found in "Non-GAAP Financial Measures" of this MD&A and in Air Canada's MD&A reports, available at aircanada.com.

(2) Includes aircraft fuel expense related to regional airline operations. Includes fuel handling expenses.

The following table provides Air Canada's revenue passenger miles (RPMs), available seat miles (ASMs) and passenger load factors, on a system-basis and by market, for the last eight quarters.

	2015	2016				2017		
System	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
RPMs (millions)	15,301	16,092	18,418	24,328	17,643	18,341	20,928	26,472
ASMs (millions)	18,869	19,833	22,344	28,458	22,091	22,894	25,357	31,050
Passenger load factor (%)	81.1%	81.1%	82.4%	85.5%	79.9%	80.1%	82.5%	85.3%
Domestic								
RPMs (millions)	4,291	3,960	4,717	6,068	4,534	4,101	4,875	6,130
ASMs (millions)	5,222	4,952	5,678	7,066	5,510	5,108	5,837	7,173
Passenger load factor (%)	82.2%	80.0%	83.1%	85.9%	82.3%	80.3%	83.5%	85.4%
U.S. Transborder								
RPMs (millions)	2,768	3,376	3,107	3,613	3,182	3,782	3,609	3,951
ASMs (millions)	3,493	4,278	3,799	4,223	3,985	4,687	4,376	4,683
Passenger load factor (%)	79.2%	78.9%	81.8%	85.6%	79.9%	80.7%	82.5%	84.4%
Atlantic								
RPMs (millions)	3,719	3,401	5,394	8,270	4,437	3,891	6,131	9,406
ASMs (millions)	4,755	4,383	6,805	9,785	5,778	5,248	7,661	11,087
Passenger load factor (%)	78.2%	77.6%	79.3%	84.5%	76.8%	74.1%	80.0%	84.8%
Pacific								
RPMs (millions)	3,202	3,218	3,902	5,002	3,959	3,943	4,671	5,471
ASMs (millions)	3,773	3,732	4,496	5,821	4,977	4,862	5,540	6,412
Passenger load factor (%)	84.9%	86.2%	86.8%	85.9%	79.6%	81.1%	84.5%	85.3%
Other								
RPMs (millions)	1,322	2,137	1,298	1,375	1,531	2,624	1,642	1,514
ASMs (millions)	1,626	2,488	1,566	1,563	1,841	2,989	1,943	1,695
Passenger load factor (%)	81.3%	85.8%	82.9%	87.9%	83.1%	87.8%	84.5%	89.3%

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 12 of Air Canada's 2016 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 discussed in Note 9 of Air Canada's third quarter 2017 interim unaudited condensed consolidated financial statements.

9. ACCOUNTING POLICIES

Air Canada's accounting policies are as disclosed in Note 2 of Air Canada's 2016 annual audited consolidated financial statements. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time.

As described in Note 2I of Air Canada's 2016 annual audited consolidated financial statements, performance share units ("PSUs") and restricted share units ("RSUs") were accounted for as equity settled instruments. A prospective change in accounting was made in 2017 from equity settled to cash settled instruments based on settlement experience. In accounting for cash settled instruments, compensation expense is adjusted for subsequent changes in the fair value of the PSUs and RSUs taking into account forfeiture estimates. The liability related to cash settled PSUs and RSUs is recorded in other long-term liabilities on Air Canada's consolidated statement of financial position.

Critical accounting estimates and judgments

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain of the amounts reported in these financial statements and accompanying notes. The underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Income taxes

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, among other aspects, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

In this regard and in connection with the preparation of Air Canada's financial statements for the period ended September 30, 2017, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, are expected to be realized. Accordingly, a deferred income tax asset of $610 million was recognized as at September 30, 2017 which resulted in a non-cash tax recovery recorded in Air Canada's consolidated statement of operations of $806 million and non-cash tax expense recorded in Air Canada's consolidated statement of comprehensive income of $196 million related to remeasurements on employee benefit liabilities.

At September 30, 2017, Air Canada has net capital losses of approximately $87 million available for income tax purposes, for which no deferred income tax asset has been recognized at this time, as the ability to utilize these tax attributes is limited to future taxable capital gains. While the net capital losses remain available for use, the recognition criteria for accounting is not met at this time.

Income tax recorded in Air Canada's consolidated statement of operations is presented below.

	Third Quarter		First Nine Months	
	2017	2016	2017	2016
Current income tax	$ 13	$ -	$ 16	$ -
Deferred income tax	(806)	-	(806)	-
Income tax expense (recovery)	**$ (793)**	**$ -**	**$ (790)**	**$ -**

As of the fourth quarter of 2017, Air Canada expects to record income tax expense or recovery (current and deferred income taxes), as applicable. Adjusted net income and adjusted earnings per share will be reported on an after-tax basis, including the impact of income taxes on adjusted pre-tax income.

Accounting standard issued but not yet adopted

IFRS 15 – Revenue from contracts with customers

As described in Note 2BB of Air Canada's 2016 annual consolidated financial statements, Air Canada will apply IFRS 15 effective January 1, 2018. The standard will be applied retrospectively with adjustment to the opening consolidated statement of financial position as at January 1, 2017. Under IFRS 15, incremental costs of obtaining passenger revenues, such as credit card fees and global distribution system charges, will be capitalized at the time the flight is sold and expensed at the time of passenger revenue recognition. Currently, these costs are expensed as incurred at the time the flight ticket is sold. The anticipated impact on the consolidated statement of financial position as at January 1, 2017 is an increase to Prepaid expenses and other current assets of $61 million and an equivalent increase to opening retained earnings. In addition, deferred commission costs in the amount of $40 million as at December 31, 2016, currently recorded net against the Advance ticket sales liability, will be reclassified to Prepaid expenses and other current assets. The amount of the deferred contract cost asset will fluctuate on a quarterly basis in line with changes in the advance ticket sales liability. In addition, certain passenger and cargo-related fees and surcharges will be reclassified from Other to Passenger revenue and to Cargo revenue on Air Canada's consolidated statement of operations.

Air Canada continues to evaluate other possible impacts of this standard on its consolidated financial statements, including the impact of changes to the disclosure requirements, however no further financial statement impacts are expected at this time.

10. OFF-BALANCE SHEET ARRANGEMENTS

Information on Air Canada's off-balance sheet arrangements is disclosed in section 15 "Off-Balance Sheet Arrangements" of Air Canada's 2016 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

11. RELATED PARTY TRANSACTIONS

At September 30, 2017, 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.

12. RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 17 "Risk Factors" of Air Canada's 2016 MD&A, with the following update to the portion entitled *Investigations by competition authorities relating to Air Canada Cargo:*

In March 2017, the European Commission issued a new decision imposing the same fine of €21 million ($30 million) initially levied against Air Canada in 2010. Air Canada has appealed the decision. Air Canada recorded the charge as a special item in the first quarter of 2017 and paid the fine, as required, in the second quarter of 2017, pending the outcome of its appeal. While Air Canada cannot predict with certainty the outcome of its appeal or any related proceedings, Air Canada believes it has reasonable grounds to challenge the European Commission's ruling.

13. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal controls over financial reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer ("CEO"), its Executive Vice President and Chief Financial Officer ("CFO") and its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

In the Corporation's 2016 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporation's third quarter 2017 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporation's Audit, Finance and Risk Committee reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes, and the Corporation's Board of Directors approved these documents prior to their release.

Changes in internal controls over financial reporting

There have been no changes to the Corporation's internal controls over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

14. NON-GAAP FINANCIAL MEASURES

Below is a description of certain non-GAAP financial measures used by Air Canada in an effort 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.

EBITDAR

EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation, amortization, impairment and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. Air Canada excludes special items from EBITDAR as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

EBITDAR is reconciled to operating income as follows:

	Third Quarter			First Nine Months		
(Canadian dollars in millions, except where indicated)	**2017**	**2016**	**$ Change**	**2017**	**2016**	**$ Change**
Operating income – GAAP	**$ 1,004**	**$ 896**	**$ 108**	**$ 1,231**	**$ 1,327**	**$ (96)**
Add back (as reflected on Air Canada's consolidated statement of operations):						
Depreciation, amortization and impairment	241	220	21	711	604	107
Aircraft rent	125	118	7	377	342	35
Add back (included in Regional airlines expense):						
Depreciation, amortization and impairment	8	6	2	21	17	4
Aircraft rent	10	8	2	30	23	7
EBITDAR (including special items)	**$ 1,388**	**$ 1,248**	**$ 140**	**$ 2,370**	**$ 2,313**	**$ 57**
Remove effect of special items [(1)]	-	-	-	30	-	30
EBITDAR (excluding special items)	**$ 1,388**	**$ 1,248**	**$ 140**	**$ 2,400**	**$ 2,313**	**$ 87**

(1) In the first quarter of 2017, Air Canada recorded a provision of $30 million relating to a fine which was reinstated by a decision of the European Commission pertaining to cargo investigations.

Adjusted net debt to trailing 12-month EBITDAR (leverage ratio)

Adjusted net debt to trailing 12-month EBITDAR ratio (also referred to as "leverage ratio" in this MD&A) is commonly used in the airline industry and is used by Air Canada as a means to measure financial leverage. Leverage ratio is calculated by dividing adjusted net debt by trailing 12-month EBITDAR. Refer to section 6.2 "Adjusted Net Debt" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP. As mentioned above, Air Canada excludes special items from EBITDAR results (which are used to determine leverage ratio) as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

Free cash flow

Free cash flow is commonly used in the airline industry and is used by Air Canada as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada is able to 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 6.4 "Consolidated Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

Adjusted CASM

Air Canada uses adjusted CASM as a means 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 special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

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.

Excluding aircraft fuel expense, the cost of ground packages at Air Canada Vacations and special items from operating expenses generally allows for more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to those of other airlines.

Adjusted CASM is reconciled to GAAP operating expense as follows:

	Third Quarter			First Nine Months		
(Canadian dollars in millions, except where indicated)	**2017**	**2016**	**$ Change**	**2017**	**2016**	**$ Change**
Operating expense – GAAP	**$ 3,876**	**$ 3,555**	**$ 321**	**$ 11,201**	**$ 9,925**	**$ 1,276**
Adjusted for:						
Aircraft fuel expense (as reflected on Air Canada's consolidated statement of operations)	(832)	(708)	(124)	(2,192)	(1,681)	(511)
Aircraft fuel expense (included in Regional airlines expense)	(109)	(96)	(13)	(300)	(237)	(63)
Ground package costs	(73)	(72)	(1)	(432)	(388)	(44)
Special items [(1)]	-	-	-	(30)	-	(30)
Operating expense, adjusted for the above-noted items	**$ 2,862**	**$ 2,679**	**$ 183**	**$ 8,247**	**$ 7,619**	**$ 628**
ASMs (millions)	**31,050**	**28,458**	**9.1**	**79,301**	**70,635**	**12.3**
Adjusted CASM (cents)	**¢ 9.22**	**¢ 9.41**	**(2.1)**	**¢ 10.40**	**¢ 10.79**	**(3.6)**

(1) In the first quarter of 2017, Air Canada recorded a provision of $30 million relating to a fine which was reinstated by a decision of the European Commission pertaining to cargo investigations.

Adjusted net income and adjusted earnings per share – diluted

Air Canada uses adjusted net income and adjusted earnings 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 income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, loss on debt settlements and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. The net income tax recovery recorded in the third quarter of 2017 is excluded from adjusted net income as it is a one-time recognition of previously unrecognized income tax assets. Commencing in the fourth quarter of 2017, on a prospective basis, adjusted net income will include the tax effect of reconciling items included in the measurement of adjusted net income.

	Third Quarter			First Nine Months		
(Canadian dollars in millions, except where indicated)	**2017**	**2016**	**$ Change**	**2017**	**2016**	**$ Change**
Net income	**$ 1,786**	**$ 768**	**$ 1,018**	**$ 2,049**	**$ 1,055**	**$ 994**
Adjusted for:						
Special items [1]	-	-	-	30	-	30
Recovery of income taxes	(793)	-	(793)	(790)	-	(790)
Foreign exchange (gain) loss	(44)	42	(86)	(182)	9	(191)
Net financing expense relating to employee benefits	15	17	(2)	47	52	(5)
Loss (gain) on financial instruments recorded at fair value	(17)	(6)	(11)	(24)	5	(29)
Gain on sale and leaseback of assets	-	-	-	(52)	(19)	(33)
Loss on debt settlements	3	-	3	3	7	(4)
Adjusted net income	**$ 950**	**$ 821**	**$ 129**	**$ 1,081**	**$ 1,109**	**$ (28)**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	277	280	(3)	277	283	(6)
Adjusted earnings per share – diluted	**$ 3.43**	**$ 2.93**	**$ 0.50**	**$ 3.90**	**$ 3.92**	**$ (0.02)**

(1) In the first quarter of 2017, Air Canada recorded a provision of $30 million relating to a fine which was reinstated by a decision of the European Commission pertaining to cargo investigations.

The following 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)	**2017**	**2016**	**2017**	**2016**
Weighted average number of shares outstanding – basic	**272**	**275**	**272**	**278**
Effect of dilution	5	5	5	5
Weighted average number of shares outstanding – diluted	**277**	**280**	**277**	**283**

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 financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, loss on debt settlements and special items. Air Canada uses adjusted pre-tax income (loss) to determine return on invested capital.

Return on invested capital

Air Canada uses return on invested capital ("ROIC") as a means to assess the efficiency with which it allocates its capital to generate returns. Return is based on adjusted pre-tax income (or loss, as applicable), excluding interest expense and implicit interest on operating leases. Invested capital includes (i) average year-over-year long-term debt, average year-over-year finance lease obligations, average year-over-year shareholders' equity and (ii) the value of capitalized operating leases (calculated by multiplying annualized aircraft rent by 7). Air Canada previously calculated invested capital based on an asset less operating liabilities approach. Following a significant increase in Air Canada's invested capital and book value of its equity, Air Canada has decided to change the methodology to a book value-based method of calculating ROIC, as described above.

	12 Months Ended		
(Canadian dollars in millions, except where indicated)	**September 30, 2017**	**September 30, 2016**	**$ Change**
Income before income taxes	**$ 1,081**	**$ 939**	**$ 142**
Remove:			
Special items [(1)]	121	31	90
Foreign exchange loss	(153)	168	(321)
Net financing expense relating to employee benefits	71	79	(8)
Loss on financial instruments recorded at fair value	(33)	8	(41)
Gain on sale and leaseback of assets	(52)	(19)	(33)
Loss on debt settlements [(2)]	85	20	65
Adjusted pre-tax income	**$ 1,120**	**$ 1,226**	**$ (106)**
Adjusted for:			
Interest expense [(3)]	312	390	(78)
Implicit interest on operating leases [(4)]	262	229	33
Adjusted pre-tax income before interest	**$ 1,694**	**$ 1,845**	**$ (151)**
Invested capital:			
Average long-term debt and finance lease obligations	6,653	6,558	95
Average shareholders' equity	1,614	24	1,590
Capitalized operating leases [(5)]	3,745	3,276	469
Invested capital	**$ 12,012**	**$ 9,858**	**$ 2,154**
Return on invested capital (%)	**14.1%**	**18.7%**	**(4.6) pp**

(1) *Special items for the 12 months ended September 30, 2017 included a provision of $30 million related to cargo investigations and a past service cost expense of $91 million to reflect the estimated cost of defined benefit pension increases applicable to members of the Air Canada Pilots' Association.*

Special items for the 12 months ended September 30, 2016 included one-time payments totaling $26 million related to Air Canada's contract on collective agreement terms with CUPE, one-time payments totaling $36 million related to Air Canada's contract on collective agreement terms with the IAMAW, and a $30 million recovery related to cargo investigations which was previously paid.

(2) *Loss on debt settlements for the 12 months ended September 30, 2017 of $85 million included $82 million related to a $1.25 billion refinancing transaction and $3 million related to the early exercise of a purchase option for an Airbus 330 aircraft.*

Loss on debt settlements for the 12 months ended September 30, 2016 of $20 million was related to the disposal of Embraer 190 in 2016 and 2015.

(3) *Interest expense excludes the loss on debt settlements related to the C$1.25 billion refinancing transaction and the loss on debt settlements related to the disposal of Embraer 190 in 2016 and 2015.*

(4) *Interest implicit on operating leases is equal to 7.0% of 7 times the trailing 12 months of aircraft rent. 7.0% is a proxy and does not necessarily represent the actual implicit interest on operating leases for any given period.*

(5) *Capitalized operating leases are calculated by multiplying the trailing 12 months of aircraft rent by 7. Aircraft rent totaled $535 million for the 12 months ended September 30, 2017 and $468 million for the 12 months ended September 30, 2016 (includes aircraft rent related to regional operations).*

15. GLOSSARY

Adjusted CASM – Refers to operating expense per ASM adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations, and special items. Refer to section 14 "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 financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, loss on debt settlements and special items. Refer to section 14 "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 financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, loss on debt settlements and special items. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

Air Georgian – Refers to Air Georgian Limited.

Atlantic passenger and cargo revenues – Refer to 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.

Boeing – Refers to The Boeing Company.

Bombardier – Refers to Bombardier Inc.

CASM – Refers to operating expense per ASM.

Domestic passenger and cargo revenues – Refer to revenues from flights within Canada.

EBITDAR – Refers to earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent. EBITDAR is a non-GAAP financial measure. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information. Air Canada excludes special items from EBITDAR.

EVAS – Refers to Exploits Valley Air Services Ltd.

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 6.4 and 14 of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

Leverage ratio – Refers to adjusted net debt to trailing 12-month EBITDAR ratio (calculated by dividing adjusted net debt by trailing 12-month EBITDAR). Leverage ratio is a non-GAAP financial measure. Refer to sections 6.2 and 14 of this MD&A for additional information.

Loss on debt settlements – Refer to losses related to debt settlements that, in management's view, are to be separately disclosed by virtue of their size or incidence to enable a fuller understanding of the Corporation's financial performance.

Other passenger and cargo revenues – Refer to revenues from flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

Pacific passenger and cargo revenues – Refer to 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 Available Seat Miles.

Passenger revenue per available seat mile or PRASM – Refers to average passenger revenue per ASM (baggage fee revenues, which are included in passenger revenues, are removed for the purposes of calculating PRASM).

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

Return on invested capital or ROIC – Refers to return on invested capital and is a measure used to assess the efficiency with which a company allocates its capital to generate returns. Refer to section 14 "Non-GAAP Financial Measures" of this MD&A for additional information.

Revenue passenger carried – Refers to the International Air Transport Association's (IATA) 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.

Sky Regional – Refers to Sky Regional Airlines Inc.

Special items – Refer to those items that, in management's view, are to be separately disclosed by virtue of their significance to the financial statements, to enable a fuller understanding of the Corporation's financial performance.

Weighted average cost of capital or WACC – Refers to management's estimate of its cost of capital, in which each category of capital is proportionately weighted.

Yield – Refers to average passenger revenue per RPM (baggage fee revenues, which are included in passenger revenues, are removed for the purposes of calculating yield).