



Third Quarter 2020

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

November 9, 2020

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1. HIGHLIGHTS

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

(Canadian dollars in millions, except where indicated)	Third Quarter			First Nine Months		
	2020	2019	\$ Change	2020	2019	\$ Change
Financial Performance Metrics						
Operating revenues	757	5,530	(4,773)	5,006	14,702	(9,696)
Operating income (loss)	(785)	956	(1,741)	(2,773)	1,505	(4,278)
Income (loss) before income taxes	(821)	878	(1,699)	(3,578)	1,603	(5,181)
Net income (loss)	(685)	636	(1,321)	(3,486)	1,324	(4,810)
Adjusted pre-tax income (loss) ⁽¹⁾	(1,141)	857	(1,998)	(3,099)	1,207	(4,306)
EBITDA (excluding special items) ⁽¹⁾	(554)	1,472	(2,026)	(1,315)	2,971	(4,286)
Unrestricted liquidity ⁽²⁾	8,189	7,355	834	8,189	7,355	834
Net cash flows from (used in) operating activities	(286)	834	(1,120)	(1,557)	5,035	(6,592)
Free cash flow ⁽¹⁾	(568)	533	(1,101)	(2,424)	1,649	(4,073)
Net debt ⁽¹⁾	4,973	2,999	1,974	4,973	2,999	1,974
Diluted earnings (loss) per share	(\$2.31)	\$2.35	(\$4.66)	(\$12.58)	\$4.86	(\$17.44)
Operating Statistics ⁽³⁾			% Change			% Change
Revenue passenger miles ("RPM") (millions)	2,517	27,954	(91.0)	20,807	72,710	(71.4)
Available seat miles ("ASM") (millions)	5,949	32,457	(81.7)	31,703	86,383	(63.3)
Passenger load factor %	42.3%	86.1%	(43.8) pp	65.6%	84.2%	(18.5) pp
Passenger revenue per RPM ("Yield") (cents)	20.2	18.4	9.6	18.8	18.2	3.0
Passenger revenue per ASM ("PRASM") (cents)	8.5	15.8	(46.2)	12.3	15.3	(19.7)
Operating revenue per ASM (cents)	12.7	17.0	(25.3)	15.8	17.0	(7.2)
Operating expense per ASM ("CASM") (cents)	25.9	14.1	NM	24.5	15.3	NM
Adjusted CASM (cents) ⁽¹⁾	26.1	10.1	NM	20.1	10.8	NM
Average number of full-time equivalent ("FTE") employees (thousands) ⁽⁴⁾	17.2	33.2	(48.1)	22.2	32.8	(32.3)
Aircraft in operating fleet at period-end ⁽⁵⁾	351	404	(13.1)	351	404	(13.1)
Seats dispatched (thousands)	3,597	17,780	(79.8)	19,107	49,147	(61.1)
Aircraft frequencies (thousands)	30.1	148.1	(79.7)	160.4	418.2	(61.6)
Average stage length (miles) ⁽⁶⁾	1,654	1,825	(9.4)	1,659	1,758	(5.6)
Fuel cost per litre (cents)	52.5	74.7	(29.7)	63.7	76.4	(16.6)
Fuel litres (thousands)	332,658	1,633,120	(79.6)	1,781,560	4,364,351	(59.2)
Revenue passengers carried (thousands) ⁽⁷⁾	1,728	14,627	(88.2)	12,135	39,495	(69.3)

- (1) *Adjusted pre-tax income (loss), EBITDA (excluding special items) (earnings before interest, taxes, depreciation and amortization), free cash flow and adjusted CASM are each non-GAAP financial measures and net debt is an additional GAAP measure. Refer to section 16 of this MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures.*
- (2) *Unrestricted liquidity refers to the sum of cash, cash equivalents and short and long-term investments, and the amount of available credit under Air Canada's revolving credit facilities. At September 30, 2020, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of \$7,775 million, and long-term investments of \$414 million. At September 30, 2019, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of \$5,869 million, long-term investments of \$492 million and undrawn lines of credit of \$994 million.*
- (3) *Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.*
- (4) *Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.*
- (5) *The number of aircraft in Air Canada's operating fleet at September 30, 2020 includes a number of aircraft that have been grounded due to the COVID-19 pandemic as well as 24 Boeing 737 MAX aircraft which have been grounded since 2019. Refer to section 5 "Fleet" of this MD&A for additional information.*
- (6) *Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.*
- (7) *Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.*

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 under the brand name Air Canada Vacations® ("Air Canada Vacations"), Air Canada Rouge LP, doing business under the brand name Air Canada Rouge® ("Air Canada Rouge") and Aeroplan Inc. ("Aeroplan"). 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 2020. 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 2020, as well as Air Canada's 2019 annual audited consolidated financial statements and notes and Air Canada's 2019 MD&A each dated February 18, 2020. 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 non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of November 8, 2020.

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 14 "Risk Factors" of this MD&A and section 20 "Risk Factors" of Air Canada's 2019 MD&A. Air Canada issued a news release dated November 9, 2020 reporting on its results for the third quarter of 2020. This news release is available on Air Canada's website at 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 relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

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

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world, and particularly in Canada as well as the United States. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. There is very limited visibility on travel demand given changing government restrictions in place around the world and the severity of the restrictions in Canada; these restrictions and concerns about travel due to the COVID-19 pandemic as well as passenger concerns and expectations about the need for certain precautions, such as physical distancing, are severely inhibiting demand. The COVID-19 pandemic is also having significant

economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. Air Canada cannot predict the full impact or the timing for when conditions improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions, and passenger reaction, as well as timing of a recovery in international and business travel which are important segments of Air Canada's market, none of which can be predicted with any degree of certainty.

Other factors which may cause results to differ materially from results indicated in forward-looking statements include our ability to successfully achieve or sustain positive net profitability, economic and geopolitical conditions, our ability to pay our indebtedness and maintain liquidity, industry and market conditions and the demand environment, competition, the timing and conditions of the return to service of Boeing 737 MAX aircraft into our fleet (including the introduction of those on order and the management of our fleet and operations until their return to service or introduction), energy prices, our dependence on technology, our ability to successfully implement appropriate strategic and other important initiatives (including our ability to reduce operating costs), cybersecurity risks, war, terrorist acts, other epidemic diseases, our dependence on key suppliers, casualty losses, changes in laws, regulatory developments or proceedings, our ability to successfully launch and operate our new loyalty program, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), interruptions of service, our dependence on regional and other carriers, our ability to preserve and grow our brand, employee and labour relations and costs, our dependence on Star Alliance and joint ventures, limitations due to restrictive covenants, pending and future litigation and actions by third parties, currency exchange, pension plans, our ability to attract and retain required personnel, insurance issues and costs, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 14 "Risk Factors" of this MD&A and section 20 "Risk Factors" of Air Canada's 2019 MD&A. Furthermore, the acquisition of Transat A.T. Inc. is subject to shareholder approval, court approval, satisfaction of customary listing conditions of the Toronto Stock Exchange, regulatory approvals and certain customary and other conditions, and there are no assurances that the acquisition will be completed as described in this MD&A or at all. The forward-looking statements contained or incorporated by reference in this MD&A represent Air Canada's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

KEY ASSUMPTIONS

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the COVID-19 pandemic. In light of the COVID-19 pandemic, as well as the economic environment and the recent significant volatility in fuel price and foreign exchange rates, Air Canada is not disclosing any assumptions around GDP, fuel price or foreign exchange rates. As previously disclosed, Air Canada has withdrawn all previous guidance provided, including all first quarter and full year 2020 guidance as well as full year 2021 guidance (including its free cash flow guidance for the 2019-2021 period).

INTELLECTUAL PROPERTY

Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this MD&A may be listed without the ©, ® and TM symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights.

This MD&A may also include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

3. OVERVIEW

Measures in Response to COVID-19 Pandemic

Air Canada has taken or will be taking the following measures as part of its COVID-19 Mitigation and Recovery Plan:

Customer Service and Safety

- Air Canada makes safety its first consideration in all that it does and has been continually updating its health and safety policies and procedures for travellers and employees in all workplaces, airports, and onboard aircraft to account for new information about COVID-19 as it becomes available. This includes a requirement for customers to wear a protective face covering, as well as enhanced protective personal equipment for airport agents and crews, the reinforcement of safe practices such as frequent hand-washing and collaborating with the Canadian federal government to screen passengers to help determine fitness for flying.
- To underscore its commitment to customer and employee safety, Air Canada introduced Air Canada CleanCare+. This program is designed to reduce the risk of exposure to COVID-19 through such measures as enhanced aircraft grooming, mandatory preflight customer temperature checks in addition to required health questionnaires and providing all customers with care kits for hand cleaning and hygiene.
- Air Canada has undertaken several medical collaborations to continue advancing biosafety across its business, including with Cleveland Clinic Canada in Toronto, a renowned global healthcare leader, to provide additional science-based evidence in our ongoing COVID-19 response; with Ottawa-based Spartan Bioscience to explore rapid COVID-19 testing in an aviation environment; and since last year with Toronto-based BlueDot, a company that monitors infectious diseases globally in real time to give us accurate, relevant information to make business and safety decisions quickly.
- Air Canada has been partnering with McMaster HealthLabs and the Greater Toronto Airports Authority in a study of international travellers arriving at Toronto Pearson International Airport. Preliminary results indicate that testing can provide an effective, responsible alternative to facilitate the safe relaxation of quarantines.
- Air Canada recently announced that it was finalizing an initial order of Abbott's ID NOW COVID-19 rapid response tests as part of its ongoing evaluation of COVID-19 testing technology and protocols, one of the first private sector companies to do so.
- Air Canada also recently announced plans to explore the application of COVID-19 contact tracing technology in its workplace using the Bluetooth enabled TraceSCAN app and wearable technology developed by Canadian-based Facedrive Inc.
- To meet the demand for the global transport of goods, including personal protective equipment during the pandemic, Air Canada operated more than 3,000 all-cargo international flights since March 22, 2020, and plans to operate up to 100 all-cargo flights per week in the fourth quarter of 2020 using a combination of Boeing 787 and Boeing 777 aircraft as well as four converted Boeing 777 and three converted Airbus 330 aircraft where it has doubled available cargo space by removing seats from the passenger cabin.
- Air Canada announced special benefits and accommodations for Aeroplan and Altitude members in light of COVID-19. These include pausing mileage expiration, grandfathering mileage-earned status, waiving certain change and redeposit fees, and launching new promotions so that members can earn additional Aeroplan Miles without leaving home.

Capacity and Route Network

- Air Canada reduced second and third quarter 2020 ASM capacity by 92.0% and 81.7%, respectively, compared to the same quarters in 2019, and plans to reduce fourth quarter 2020 capacity by approximately 75% compared to the fourth quarter of 2019. The airline will continue to dynamically adjust capacity and take other measures as required to adjust for demand, including as a result of health warnings, travel restrictions, quarantines, border closures and passenger demand. The Canadian travel and quarantine restrictions, as of today, are as follows:
 - Travel bans prohibiting all foreign nationals from entering Canada by air under provisions of the *Aeronautics Act* and *Quarantine Act* under two different orders (one for United States arrivals and one for all other international arrivals), subject to limited exceptions (for example, for family members, compassionate reasons and international students).
 - 14-day quarantine requirements under the *Quarantine Act* for all travellers entering Canada, including Canadians.
 - Interprovincial restrictions on travel and/or quarantines in Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, Manitoba (for those arriving from eastern provinces) and in the three territories – for all persons including Canadians travelling in their own country.
- The Government of Canada also has a global travel advisory in place warning Canadians to avoid all nonessential travel outside of Canada.
- On June 30, 2020, Air Canada suspended service indefinitely on 30 domestic regional routes and closed eight stations at regional airports in Canada.

Financing and Liquidity

- In March 2020, Air Canada drew down its US\$600 million and \$200 million revolving credit facilities for aggregate net proceeds of \$1,027 million.
- In June 2020, Air Canada concluded an underwritten marketed public offering of 35,420,000 Class A variable voting shares and/or Class B voting shares of Air Canada at a price of \$16.25 per share, for aggregate proceeds of \$576 million, and a concurrent marketed private placement of convertible senior unsecured notes due 2025 for aggregate proceeds of US\$748 million (\$1,011 million).
- In June 2020, Air Canada completed a private offering of \$840 million aggregate principal amount of 9.00% Second Lien Secured Notes due 2024 (the "2024 Notes"), which were sold at 98% of par.
- In June 2020, Air Canada completed a private offering of one tranche of Class C Enhanced Equipment Trust Certificates (EETCs) with a combined aggregate face amount of approximately US\$316 million (\$426 million), which were sold at 95.002% of par.
- In September 2020, Air Canada concluded a private offering of two tranches of EETCs, the proceeds of which were used to purchase equipment notes issued by Air Canada and secured by three Boeing 787-9 aircraft, three Boeing 777-300ER aircraft, one Boeing 777-200LR and nine Airbus A321-200 aircraft. The two tranches of certificates have a combined aggregate face amount of US\$553 million (\$740 million) and a weighted average interest rate of 5.73%. Air Canada used the proceeds from this financing together with cash on hand to repay in full the US\$600 million (\$803 million) 364-day term loan originally put in place in April 2020 and discussed in Air Canada's second quarter 2020 MD&A.
- In September 2020, Air Canada concluded a committed secured facility totaling \$788 million to finance the purchase of the first 18 Airbus A220 aircraft. As aircraft are financed under this new

Canadian dollar facility, the bridge financing of \$788 million put in place in April 2020 (and discussed in Air Canada's second quarter 2020 MD&A) will be repaid concurrently. At September 30, 2020, nine Airbus A220 aircraft were financed under this facility with the corresponding bridge financing repaid.

- In early October 2020, Air Canada announced that it had completed sale and leaseback transactions for nine Boeing 737 MAX 8 aircraft for total proceeds of US\$365 million (\$485 million). The nine aircraft were delivered to Air Canada in the past three years.
- Air Canada's unencumbered asset pool (excluding the value of Aeroplan, Air Canada Vacations and Air Canada Cargo) amounted to approximately \$1.8 billion following the closing of the transactions discussed above. As part of Air Canada's ongoing efforts to maintain adequate liquidity levels, additional financing arrangements continue to be assessed.
- Air Canada suspended share purchases under its Normal Course Issuer Bid in early March 2020 and did not renew its issuer bid upon its expiry in the second quarter of 2020.

Refer to section 6.1 "Liquidity" of this MD&A for a discussion on Air Canada's unrestricted liquidity and section 6.5 "Consolidated Cash Flow Movements" of this MD&A for a discussion on Air Canada's net cash burn.

Cost Reduction and Capital Reduction and Deferral Program

- Air Canada initiated a company-wide cost reduction and capital reduction and deferral program for 2020 which has now reached approximately \$1.5 billion for 2020, increased from an initial target of \$500 million. On a capacity reduction of 81.7%, third quarter 2020 operating expenses decreased \$3,032 million or 66% from the same quarter in 2019, reflecting the significant progress made on both managing variable costs and reducing fixed expenses. Air Canada continues to seek additional opportunities for cost reduction and cash preservation.
- Air Canada announced a workforce reduction of approximately 20,000 employees, representing more than 50% of its workforce. This was achieved through layoffs, terminations of employment, voluntary separations, early retirements, and special leaves.
- Air Canada adopted the Canada Emergency Wage Subsidy (CEWS) for most of its workforce effective March 15, 2020. In July 2020, the program was redesigned and extended until December 2020. In September 2020, the Government of Canada announced a further extension of the program to June 2021. Air Canada intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements.
- Air Canada is permanently retiring 79 older aircraft from its fleet – consisting of Boeing 767, Airbus A319 and Embraer 190 aircraft. Their retirement will simplify the airline's overall fleet, reduce its cost structure, and lower its carbon footprint.
- Air Canada concluded an amendment to the purchase agreement for Airbus A220-300 aircraft which became effective in early November 2020. As a result, Air Canada has deferred 18 aircraft deliveries over 2021 and 2022 and will not be purchasing the last 12 Airbus A220 aircraft. Air Canada expects to take delivery of five Airbus A220 aircraft in the fourth quarter of 2020.
- In early November 2020, Air Canada also amended its agreement with Boeing to cancel 10 Boeing 737 MAX 8 aircraft deliveries from its firm order of 50 aircraft and to defer its remaining 16 aircraft deliveries over the late 2021 to 2023 period.
- Through this fleet restructuring and other capital reduction initiatives, Air Canada successfully lowered its planned capital expenditures by approximately \$3.0 billion for the 2020 to 2023 period compared to its projected capital expenditures at the end of 2019.

Special Items

In the third quarter of 2020, Air Canada recorded special items amounting to a net operating expense reduction of \$192 million, of which \$189 million was related to the CEWS program and \$3 million was related to impairments. Refer to section 4 "Results of Operations" of this MD&A for additional information.

Definitive Arrangement Agreement for the Acquisition of Transat

On October 10, 2020, Air Canada announced amendments to the acquisition transaction with Transat A.T. Inc. (Transat) previously disclosed. Under the binding agreement, unanimously approved by the Board of Directors of Transat, Air Canada will acquire all the shares of Transat for \$5.00 per share, payable at the option of Transat shareholders in cash or shares of Air Canada at a fixed exchange ratio of 0.2862 Air Canada share for each Transat share (representing a price for the Air Canada shares of \$17.47). At the time of the announcement, the value of the transaction was approximately \$190 million.

The transaction remains subject to shareholder approval, court approval, satisfaction of customary listing conditions of the Toronto Stock Exchange, certain customary and other conditions, and regulatory approvals including the ongoing approval process of regulatory authorities in Canada and the European Union. If such approvals are obtained and conditions are met, the transaction is expected to be completed in late January or early February 2021.

4. RESULTS OF OPERATIONS

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

(Canadian dollars in millions, except per share figures)	Third Quarter				First Nine Months			
	2020	2019	Change		2020	2019	Change	
			\$	%			\$	%
Operating revenues								
Passenger	\$ 507	\$ 5,141	\$ (4,634)	(90)	\$ 3,907	\$ 13,257	\$ (9,350)	(71)
Cargo	216	177	39	22	634	531	103	19
Other	34	212	(178)	(84)	465	914	(449)	(49)
Total revenues	757	5,530	(4,773)	(86)	5,006	14,702	(9,696)	(66)
Operating expenses								
Aircraft fuel	175	1,220	(1,045)	(86)	1,135	3,334	(2,199)	(66)
Wages, salaries, and benefits	475	788	(313)	(40)	1,735	2,368	(633)	(27)
Regional airlines expense, excluding fuel	198	501	(303)	(60)	841	1,451	(610)	(42)
Depreciation and amortization	423	516	(93)	(18)	1,414	1,466	(52)	(4)
Aircraft maintenance	45	254	(209)	(82)	496	754	(258)	(34)
Airport and navigation fees	97	284	(187)	(66)	438	760	(322)	(42)
Sales and distribution costs	30	248	(218)	(88)	226	680	(454)	(67)
Ground package costs	5	86	(81)	(94)	236	496	(260)	(52)
Catering and onboard services	26	125	(99)	(79)	146	340	(194)	(57)
Communications and information technology	66	96	(30)	(31)	292	288	4	1
Special items	(192)	-	(192)	NM	44	-	44	NM
Other	194	456	(262)	(57)	776	1,260	(484)	(38)
Total operating expenses	1,542	4,574	(3,032)	(66)	7,779	13,197	(5,418)	(41)
Operating income (loss)	(785)	956	(1,741)		(2,773)	1,505	(4,278)	
Non-operating income (expense)								
Foreign exchange gain (loss)	88	27	61		(381)	407	(788)	
Interest income	32	44	(12)		106	123	(17)	
Interest expense	(196)	(129)	(67)		(474)	(393)	(81)	
Interest capitalized	6	9	(3)		20	26	(6)	
Net financing expense relating to employee benefits	(6)	(10)	4		(26)	(29)	3	
Gain (loss) on financial instruments recorded at fair value	46	4	42		(28)	18	(46)	
Other	(6)	(23)	17		(22)	(54)	32	
Total non-operating income (expense)	(36)	(78)	42		(805)	98	(903)	
Income (loss) before income taxes	(821)	878	(1,699)		(3,578)	1,603	(5,181)	
Income tax (expense) recovery	136	(242)	378		92	(279)	371	
Net income (loss)	\$ (685)	\$ 636	\$ (1,321)		\$ (3,486)	\$ 1,324	\$ (4,810)	
Diluted earnings (loss) per share	\$ (2.31)	\$ 2.35	\$ (4.66)		\$ (12.58)	\$ 4.86	\$ (17.44)	
EBITDA (excluding special items) ⁽¹⁾	\$ (554)	\$ 1,472	\$ (2,026)		\$ (1,315)	\$ 2,971	\$ (4,286)	
Adjusted pre-tax income (loss) ⁽¹⁾	\$ (1,141)	\$ 857	\$ (1,998)		\$ (3,099)	\$ 1,207	\$ (4,306)	

(1) EBITDA (excluding special items) and adjusted pre-tax income (loss) are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

System Passenger Revenues

The system-wide impact of the COVID-19 pandemic, including government-regulated travel restrictions, was felt starting in early March 2020 and resulted in a system ASM capacity reduction of 81.7% in the third quarter of 2020 and 63.3% in the first nine months of 2020 compared to the same periods in 2019.

Passenger revenues of \$507 million in the third quarter of 2020 and \$3,907 million in the first nine months of 2020 decreased \$4,634 million or 90.1% and \$9,350 million or 70.5%, respectively, from the same periods in 2019.

On a system basis, in the third quarter of 2020, yield increased 9.6% while traffic declined 91.0% compared to the third quarter of 2019. This yield increase is mainly the result of the significant change in traffic mix and, given the low revenue base, is not a meaningful indicator. In the first nine months of 2020, yield increased 3.0% while traffic declined 71.4% compared to the first nine months of 2019.

PRASM decreased 46.2% in the third quarter of 2020 and 19.7% in the first nine months of 2020 compared to the same periods in 2019. These PRASM decreases reflected passenger load factor declines of 43.8 percentage points in the third quarter of 2020 and 18.5 percentage points in the first nine months of 2020 compared to the same periods in 2019, partly offset by the yield improvements as noted above.

Due to the abrupt and severe impact of the COVID-19 pandemic, a discussion of passenger revenues and of factors influencing year-over-year changes in traffic and yield by geographic region would not be meaningful and is therefore not provided.

The table below provides passenger revenues by geographic region for the third quarter of 2020 and the third quarter of 2019.

(Canadian dollars in millions)	Third Quarter		Change	
	2020	2019	\$	%
Canada	\$ 316	\$ 1,545	\$ (1,229)	(79.6)
U.S. transborder	28	995	(967)	(97.2)
Atlantic	111	1,613	(1,502)	(93.1)
Pacific	30	739	(709)	(96.0)
Other	22	249	(227)	(90.9)
System	\$ 507	\$ 5,141	\$ (4,634)	(90.1)

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the third quarter of 2020 versus the third quarter of 2019.

Third Quarter 2020 versus Third Quarter 2019	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	(79.6)	(66.5)	(77.6)	(27.9)	(9.0)	(39.1)
U.S. transborder	(97.2)	(94.8)	(97.6)	(45.6)	18.7	(45.5)
Atlantic	(93.1)	(80.9)	(93.4)	(57.6)	5.3	(63.8)
Pacific	(96.0)	(89.4)	(96.6)	(58.6)	18.9	(61.9)
Other	(90.9)	(88.1)	(92.3)	(31.2)	17.7	(24.1)
System	(90.1)	(81.7)	(91.0)	(43.8)	9.6	(46.2)

The table below provides passenger revenue by geographic region for the first nine months of 2020 versus the first nine months of 2019.

(Canadian dollars in millions)	First Nine Months		Change	
	2020	2019	\$	%
Canada	\$ 1,378	\$ 3,975	\$ (2,597)	(65.4)
U.S. transborder	793	2,892	(2,099)	(72.6)
Atlantic	819	3,526	(2,707)	(76.8)
Pacific	440	1,894	(1,454)	(76.8)
Other	477	970	(493)	(50.8)
System	\$ 3,907	\$ 13,257	\$ (9,350)	(70.5)

The table below provides year-over-year percentage changes in passenger revenues and operating statistics by geographic region for the first nine months of 2020 versus the first nine months of 2019.

First Nine Months 2020 versus First Nine Months 2019	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp change	Yield % Change	PRASM % Change
Canada	(65.4)	(55.8)	(65.5)	(18.3)	0.5	(21.6)
U.S. transborder	(72.6)	(65.5)	(71.7)	(14.6)	(3.2)	(20.4)
Atlantic	(76.8)	(66.2)	(77.1)	(27.2)	1.4	(31.1)
Pacific	(76.8)	(72.1)	(77.7)	(17.3)	4.3	(16.9)
Other	(50.8)	(47.7)	(51.6)	(6.5)	1.8	(5.9)
System	(70.5)	(63.3)	(71.4)	(18.5)	3.0	(19.7)

Cargo Revenues

Cargo revenues of \$216 million in the third quarter of 2020 and \$634 million in the first nine months of 2020 increased \$39 million or 21.7% and \$103 million or 19.5%, respectively, from the same periods in 2019. On a system basis, in the third quarter of 2020, yield increased 133.3% while traffic declined 47.8% compared to the third quarter of 2019. In the first nine months of 2020, yield increased 96.3% while traffic declined 39.1% compared to the first nine months of 2019. The significant yield increase reflected drastically reduced capacity and a sudden surge in demand for cargo space to meet the urgent global demand for protective equipment and critical goods, particularly in the first half of 2020, with limited industry capacity due to a significant number of passenger aircraft temporarily grounded globally during the COVID-19 pandemic. To meet the immediate and exceptional demand for this equipment, critical goods, and the regular movement of other time-sensitive air cargo, while industry air cargo capacity was reduced in the short term by many other airlines, Air Canada has been operating all-cargo international flights since mid-March 2020. To facilitate this program, it converted four Boeing 777 and three Airbus A330 aircraft by removing economy cabin seating.

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

(Canadian dollars in millions)	Third Quarter				First Nine Months			
	2020	2019	Change		2020	2019	Change	
			\$	%			\$	%
Canada	\$ 24	\$ 31	\$ (7)	(23.4)	\$ 61	\$ 86	\$ (25)	(28.7)
U.S. transborder	6	12	(6)	(49.4)	27	37	(10)	(26.5)
Atlantic	103	61	42	67.7	256	189	67	35.5
Pacific	72	60	12	21.8	255	177	78	44.6
Other	11	13	(2)	(18.3)	35	42	(7)	(18.8)
System	\$ 216	\$ 177	\$ 39	21.7	\$ 634	\$ 531	\$ 103	19.5

Other Revenues

Other revenues of \$34 million in the third quarter of 2020 and \$465 million in the first nine months of 2020 decreased \$178 million or 84% and \$449 million or 49%, respectively, from the same periods in 2019. These decreases were mainly due to a reduction in ground package revenues at Air Canada Vacations and, to a lesser extent, a reduction in passenger and airline-related fees, both due to lower passenger volumes resulting from the COVID-19 pandemic.

Operating Expenses

Operating expenses of \$1,542 million in the third quarter of 2020 and \$7,779 million in the first nine months of 2020 decreased \$3,032 million or 66% and \$5,418 million or 41%, respectively, compared to the same periods in 2019.

The more notable year-over-year changes in operating expenses in the third quarter and first nine months of 2020 compared to the same periods in 2019 are summarized below.

Aircraft Fuel

Aircraft fuel expense of \$175 million in the third quarter of 2020 and \$1,135 million in the first nine months of 2020 decreased \$1,045 million or 86% and \$2,199 million or 66%, respectively, from the same periods in 2019. These decreases reflected a lower volume of fuel litres consumed, accounting for a decrease of \$1,002 million in the third quarter of 2020 and \$2,042 million in the first nine months of 2020, and the impact of lower jet fuel prices (before the impact of foreign exchange), accounting for a decrease of \$31 million in the third quarter of 2020 and \$149 million in the first nine months of 2020, respectively, compared to the same periods in 2019.

Wages, Salaries and Benefits

Wages, salaries and benefits expense of \$475 million in the third quarter of 2020 and \$1,735 million in the first nine months of 2020 decreased \$313 million or 40% and \$633 million or 27%, respectively, from the same periods in 2019. In the third quarter of 2020, Air Canada had an average of 17,223 full-time equivalent ("FTE") employees versus 33,172 FTEs in the third quarter of 2019, a reduction of 48.1%. Air Canada continues to monitor the demand environment and will adjust its staffing levels accordingly. A decrease in expenses related to employee profit sharing programs, a reduction in stock-based

compensation expense reflecting a decline in Air Canada's share price, particularly in the first quarter of 2020, and management wage reductions for active employees were also contributing factors to the decrease in wages, salaries and benefits expense year-over-year. As further discussed below under special items, Air Canada adopted the Canada Emergency Wage Subsidy (CEWS) in the second quarter of 2020 retroactively to March 15, 2020. The net benefit of this program was \$189 million in the third quarter of 2020 and \$391 million in the first nine months of 2020.

Regional Airlines

Regional airlines expense (excluding fuel) of \$198 million in the third quarter of 2020 and \$841 million in the first nine months of 2020 decreased \$303 million or 60% and \$610 million or 42%, respectively, from the same periods in 2019. These decreases reflected the impact of reduced flying by Jazz and other airlines operating flights on behalf of Air Canada, particularly in the second and third quarters of 2020, as a result of the COVID-19 pandemic.

Depreciation and Amortization

Depreciation and amortization expense of \$423 million in the third quarter of 2020 and \$1,414 million in the first nine months of 2020 decreased \$93 million or 18% and \$52 million or 4%, respectively, from the same periods in 2019. These decreases reflected, in large part, aircraft that have been retired or impaired, partially offset by the impact of new aircraft deliveries. In the second quarter of 2020, Air Canada recorded, as a special item, impairment charges of \$330 million, as described below, including \$295 million related to the accelerated retirement of 79 older aircraft from Air Canada's fleet, consisting of Boeing 767, Airbus A319 and Embraer 190 aircraft.

Aircraft Maintenance

Aircraft maintenance expense of \$45 million in the third quarter of 2020 and \$496 million in the first nine months of 2020 decreased \$209 million or 82% and \$258 million or 34%, respectively, from the same periods in 2019. These decreases mainly reflected a lower volume of maintenance activity due to reduced flying year-over-year and the retirement of the Boeing 767 and Embraer 190 fleets. In the third quarter of 2020, maintenance provisions were reduced by \$72 million as a result of updated end-of-lease cost estimates in anticipation of returning aircraft (primarily Airbus A320 and regional aircraft) to lessors upon lease expiry (over the next 12 months). The updated cost estimates include the impact of reduced flying since the last maintenance event projected at the lease expiry date as a result of the COVID-19 pandemic.

Special Items

In the third quarter of 2020, Air Canada recorded special items amounting to a net operating expense reduction of \$192 million. The table below provides a breakdown of these special items which are further described below.

(Canadian dollars in millions)	Third Quarter		First Nine Months	
	2020	2019	2020	2019
Impairments	\$ (3)	\$ -	\$ 327	\$ -
Workforce reduction provision	-	-	112	-
Canada Emergency Wage Subsidy, net	(189)	-	(391)	-
Other	-	-	(4)	-
Special items	\$ (192)	\$ -	\$ 44	\$ -

Impairments

In response to capacity reductions related to the impact of the COVID-19 pandemic, Air Canada is accelerating the retirement of 79 older aircraft from its fleet – consisting of Boeing 767, Airbus A319 and Embraer 190 aircraft. These aircraft are being permanently retired and removed from the cash-generating units for evaluation of whether impairments exist. A fair value less cost to dispose model was used in the evaluation of impairment. The recoverable amount of the owned aircraft is equal to expected proceeds on disposal reflecting management's best estimate including inputs from published pricing guides adjusted to reflect management's best estimate of the current market environment. The recoverable amount for the leased aircraft was determined as the estimated net obligation to settle the leases comprised of contractual future lease payments and end of lease return costs.

A non-cash impairment charge of \$295 million was recorded in the first nine months of 2020, reflecting the write-down of right-of-use assets for leased aircraft and reduction of carrying values of owned aircraft to expected disposal proceeds. In addition, Air Canada recorded an impairment charge of \$32 million related to previously capitalized costs incurred for the development of technology-based intangible assets which are now cancelled.

Changes to estimates related to expected disposal proceeds may result in adjustments to the impairment charge in future periods.

Workforce Reduction Provisions

As a result of COVID-19, Air Canada undertook a workforce reduction of approximately 20,000 employees in the second quarter of 2020, representing more than 50% of its staff achieved through layoffs, terminations of employment, voluntary separations, early retirements, and special leaves. A workforce reduction provision of \$76 million was recorded related to these measures. Payments of \$21 million have been made to the end of the third quarter of 2020, resulting in a remaining obligation of \$55 million on September 30, 2020.

The provision includes the estimated notice of termination and severance costs under Air Canada's collective agreements and the *Canada Labour Code*. This amount is subject to adjustment depending on the duration and number of employees who remain on layoff status. In addition, termination benefits and curtailments of \$36 million related to the pension and benefit obligations were recorded.

Canada Emergency Wage Subsidy

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (CEWS) in order to help employers, keep and/or return Canadian-based employees to payrolls in response to challenges posed by the COVID-19 pandemic.

Air Canada determined that it met the employer eligibility criteria and applied for the CEWS retroactively to March 15, 2020. Air Canada recorded a total gross subsidy under the CEWS program of \$197 million in the third quarter of 2020 (\$492 million in the first nine months of 2020). Cash payments of \$260 million have been received in the third quarter of 2020 (\$440 million in the first nine months of 2020).

In July 2020, the program was redesigned and extended until December 2020, with the Government of Canada announcing in September a further extension of the wage subsidy program to June 2021. Air Canada intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements. The amount of the CEWS recorded in special items is net of the cost for inactive employees who were eligible for the wage subsidy under the program. There are no unfulfilled conditions or other contingencies attaching to the current CEWS program.

Non-operating Income (Expense)

Non-operating expense amounted to \$36 million in the third quarter of 2020 versus non-operating expense of \$78 million in the third quarter of 2019. Non-operating expense amounted to \$805 million in the first nine months of 2020 versus non-operating income of \$98 million in the first nine months of 2019.

Gains on foreign exchange amounted to \$88 million in the third quarter of 2020 compared to gains on foreign exchange of \$27 million in the third quarter of 2019. The September 30, 2020 closing exchange rate was US\$1=C\$1.3319 while the June 30, 2020 closing exchange rate was US\$1=C\$1.3576. The gains on foreign exchange in the third quarter of 2020 included foreign exchange gains on long-term debt and lease liabilities of \$209 million.

Losses on foreign exchange amounted to \$381 million in the first nine months of 2020 compared to gains on foreign exchange of \$407 million in the first nine months of 2019. The September 30, 2020 closing exchange rate was US\$1=C\$1.3319 while the December 31, 2019 closing exchange rate was US\$1=C\$1.2990. The losses on foreign exchange in the first nine months of 2020 included foreign exchange losses on long-term debt and lease liabilities of \$141 million and foreign exchange losses on foreign currency derivatives of \$208 million.

Income Taxes

Income taxes recorded in the third quarter and first nine months of 2020 are summarized below.

(Canadian dollars in millions)	Third Quarter		First Nine Months	
	2020	2019	2020	2019
Current income tax (expense) recovery	\$ (4)	\$ (93)	\$ 34	\$ (123)
Deferred income tax (expense) recovery	140	(149)	58	(156)
Income tax (expense) recovery	\$ 136	\$ (242)	\$ 92	\$ (279)

As a result of the COVID-19 pandemic, there is considerable negative evidence relating to losses incurred in the current year and uncertainty exists as to when conditions will improve. Such negative evidence currently outweighs the positive historical evidence and, accordingly, net deferred tax assets are not being recognized, commencing from the second quarter of 2020. The future tax deductions underlying the unrecognized deferred income tax assets remain available for use in the future to reduce taxable income. The deferred income tax expense recorded in other comprehensive income (loss) related to remeasurements on employee benefit liabilities is offset by a deferred income tax recovery which was recorded through Air Canada's consolidated statement of operations.

In consideration of not recording net deferred income tax assets, Air Canada suspended its reporting of adjusted net income as the results are not meaningfully different than the adjusted pre-tax income measure, which continues to be reported.

5. FLEET

In response to the COVID-19 pandemic, Air Canada, together with regional airlines operating flights on behalf of Air Canada under capacity purchase agreements, have reduced capacity through the temporary grounding of aircraft and will continue to assess fleet, capacity and schedule adjustments and other measures as developments warrant. In light of the ongoing uncertainty relating to the COVID-19 pandemic and the grounding and timing for return of the Boeing 737 MAX aircraft, the information disclosed in section 9 "Fleet" of Air Canada's 2019 MD&A is no longer indicative of Air Canada's operating fleet plan or delivery schedule, nor can Air Canada reasonably project at this stage what its fleet plan, schedule or capacity will be during and following the COVID-19 pandemic until such time as demand projections can be more reliably made and the impact and duration of the grounding of the Boeing 737 MAX aircraft are known. The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleet at December 31, 2019 and at September 30, 2020. The tables below include a significant number of aircraft that have been grounded due to the COVID-19 pandemic as well as 24 Boeing 737 MAX aircraft in the mainline fleet grounded since March 2019.

Air Canada is accelerating the retirement of 79 older aircraft from the operating fleet. Their retirement will simplify the airline's overall fleet, reduce its cost structure, and lower its carbon footprint.

Mainline	Actual		
	December 31, 2019	First Nine Months 2020 Fleet Changes	September 30, 2020
<u>Wide-body aircraft</u>			
Boeing 787-8	8	-	8
Boeing 787-9	29	-	29
Boeing 777-300ER	19	-	19
Boeing 777-200LR	6	-	6
Boeing 767-300ER	5	(5)	-
Airbus A330-300	13	2	15
<u>Narrow-body aircraft</u>			
Boeing 737 MAX 8	24	-	24
Airbus A321	15	-	15
Airbus A320	38	(1)	37
Airbus A319	16	-	16
Airbus A220-300	1	9	10
Embraer 190	14	(14)	-
Total Mainline	188	(9)	179

Air Canada Rouge	Actual		
	December 31, 2019	First Nine Months 2020 Fleet Changes	September 30, 2020
<u>Wide-body aircraft</u>			
Boeing 767-300ER	25	(25)	-
<u>Narrow-body aircraft</u>			
Airbus A321	14	-	14
Airbus A320	3	1	4
Airbus A319	22	(2)	20
Total Air Canada Rouge	64	(26)	38
Total Mainline and Air Canada Rouge	252	(35)	217

On March 13, 2019, Transport Canada issued a safety notice closing Canadian airspace to Boeing 737 MAX aircraft until further notice. The Federal Aviation Administration also issued a temporary grounding order for such aircraft and Boeing has suspended all Boeing 737 MAX deliveries to airline customers. Air Canada has a firm order for 40 Boeing 737 MAX aircraft. At the time of grounding, Air Canada had 24 Boeing 737 MAX aircraft in its operating fleet. The remaining 16 aircraft deliveries are expected over the late 2021 to 2023 period.

In early November 2020, Air Canada amended its agreement for the purchase of 45 Airbus A220 aircraft and we will not be purchasing 12 of these aircraft. At September 30, 2020, Air Canada had taken delivery of 10 of these aircraft and expects to take delivery of an additional five in the fourth quarter of 2020. The remaining 18 aircraft deliveries are expected over 2021 and 2022.

Air Canada expects the delivery of one additional Airbus A330 aircraft in 2020.

Air Canada Express

The table below provides the number of aircraft operated, as at December 31, 2019 and September 30, 2020, 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. The table below includes a significant number of aircraft that have been grounded due to the COVID-19 pandemic.

	Actual		
	December 31, 2019	First Nine Months 2020 Fleet Changes	September 30, 2020
Embraer 175	25	-	25
Bombardier CRJ-100/200	22	(7)	15
Bombardier CRJ-900	26	3	29
Bombardier Dash 8-100	6	(6)	-
Bombardier Dash 8-300	23	(2)	21
Bombardier Dash 8-Q400	44	-	44
Total Air Canada Express	146	(12)	134

6. FINANCIAL AND CAPITAL MANAGEMENT

6.1. Liquidity

Impact of the COVID-19 Pandemic

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue and cash flows as a result of COVID-19 pandemic and the travel restrictions imposed in many countries around the world, particularly in Canada and other countries, for example, Japan, Australia and some European countries.

The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. The expectation is for continuing considerable negative impact to cash flows and Air Canada's liquidity position, including after considering the mitigation responses described in section 3 "Overview" of this MD&A. In light of the ongoing uncertainty relating to the COVID-19 pandemic, the full extent and duration of any impact remain unknown.

Air Canada concluded a number of financing transactions in 2020, as described in section 3 "Overview" of this MD&A, increasing Air Canada's cash position, thereby allowing for additional flexibility operationally and to support the implementation of its planned mitigation and recovery measures in response to the COVID-19 pandemic.

Air Canada's unencumbered asset pool (excluding the value of Aeroplan, Air Canada Vacations and Air Canada Cargo) amounted to approximately \$1.8 billion following the closing of the transactions discussed in section 3 "Overview" of this MD&A. As part of Air Canada's ongoing efforts to maintain adequate liquidity levels, additional financing arrangements continue to be assessed.

Liquidity Risk Management

Air Canada manages its liquidity needs through a variety of strategies, including by seeking to sustain and improve cash from operations and free cash flow, sourcing committed financing, as necessary, for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 6.6, 6.7 and 6.8 of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts, including under various scenarios and assumptions, monitoring the condition and value of assets available for use as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

At September 30, 2020, unrestricted liquidity amounted to \$8,189 million (comprised of cash, cash equivalents and short-term investments of \$7,775 million and long-term investments of \$414 million). This compared to unrestricted liquidity of \$7,355 million at September 30, 2019 (comprised of cash, cash equivalents and short-term investments of \$5,869 million, undrawn lines of credit of \$994 million, and long-term investments of \$492 million. Refer to section 3 "Overview" of this MD&A for a discussion of the measures Air Canada has taken in response to the COVID-19 pandemic.

Given the impact of the COVID-19 pandemic on passenger revenues and advance ticket sales, Air Canada updated its definition of the minimum cash it requires to support ongoing business operations. The minimum cash estimate has been updated to a fixed amount of \$2,400 million, as compared to the previous minimum cash estimate of 20% of trailing 12 months operating revenue. This minimum cash estimate considers Air Canada's various financial covenants, provides adequate coverage for advance ticket sales, and supports Air Canada's liquidity needs, as described above. Starting in the third quarter of 2020, Air Canada no longer reports on excess cash as the amount is not meaningful in the current environment.

6.2. Financial Position

The table below provides a condensed consolidated statement of financial position of Air Canada as at September 30, 2020 and as at December 31, 2019.

(Canadian dollars in millions)	September 30, 2020	December 31, 2019	\$ Change
Assets			
Cash, cash equivalents and short-term investments	\$ 7,775	\$ 5,889	\$ 1,886
Other current assets	968	1,627	(659)
Current assets	\$ 8,743	\$ 7,516	\$ 1,227
Investments, deposits, and other assets	695	936	(241)
Property and equipment	12,170	12,834	(664)
Pension assets	2,541	2,064	477
Deferred income tax	23	134	(111)
Intangible assets	1,114	1,002	112
Goodwill	3,273	3,273	-
Total assets	\$ 28,559	\$ 27,759	\$ 800
Liabilities			
Current liabilities	\$ 7,236	\$ 7,775	\$ (539)
Long-term debt and lease liabilities	11,161	8,024	3,137
Aeroplan and other deferred revenues	3,857	3,136	721
Pension and other benefit liabilities	3,061	2,930	131
Maintenance provisions	1,020	1,240	(220)
Other long-term liabilities	436	181	255
Deferred income tax	73	73	-
Total liabilities	\$ 26,844	\$ 23,359	\$ 3,485
Total shareholders' equity	\$ 1,715	\$ 4,400	\$ (2,685)
Total liabilities and shareholders' equity	\$ 28,559	\$ 27,759	\$ 800

Movements in current assets and current liabilities are described in section 6.4 "Working Capital" of this MD&A. Long-term debt and lease liabilities are discussed in sections 6.3 "Net Debt" and 6.5 "Consolidated Cash Flow Movements" of this MD&A.

At September 30, 2020, net pension and benefit liabilities of \$520 million (comprised of pension assets of \$2,541 million net of pension and other benefit liabilities of \$3,061 million) decreased \$346 million from December 31, 2019. This decrease was mainly due to a net actuarial gain on remeasurements of employee liabilities of \$635 million (\$444 million, net of tax) recorded on Air Canada's consolidated statement of comprehensive income, partially offset by pension and other employee benefits expense recorded during the year. The actuarial gain included the impact of higher returns on plan assets, partially offset by a 40-basis point decrease in the discount rate used to value the liabilities.

The long-term portion of maintenance provisions of \$1,020 million declined \$220 million versus December 31, 2019. This decline reflects the reclassification of \$257 million to current liabilities for leases expiring over the next 12 months. The decline also includes the impact of a \$72 million reduction to maintenance provisions as a result of updated end-of-lease cost estimates in anticipation of returning

aircraft to lessors upon lease expiry (over the next 12 months), which includes the impact of reduced flying due to the pandemic, offset by the impact of ongoing maintenance provision expenses and the negative impact of foreign exchange.

6.3. Net Debt

The table below reflects Air Canada's net debt balances as at September 30, 2020 and as at December 31, 2019.

(Canadian dollars in millions, except where indicated)	September 30, 2020	December 31, 2019	\$ Change
Total long-term debt and lease liabilities	\$ 11,161	\$ 8,024	\$ 3,137
Current portion of long-term debt and lease liabilities	2,001	1,218	783
Total long-term debt and lease liabilities (including current portion)	\$ 13,162	\$ 9,242	\$ 3,920
Less cash, cash equivalents and short and long-term investments	(8,189)	(6,401)	(1,788)
Net debt ⁽¹⁾	\$ 4,973	\$ 2,841	\$ 2,132

(1) 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.

At September 30, 2020, net debt of \$4,973 million increased \$2,132 million from December 31, 2019, reflecting the impact of net cash used for operating and investing activities in the first nine months of 2020. Refer to section 3 "Overview" of this MD&A for a description of the debt financing activities completed during 2020. As further explained in Note 6 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2020, the conversion option in the convertible senior unsecured notes due 2025 is accounted for as an embedded derivative financial liability and is recorded in other long-term liabilities on Air Canada's consolidated statement of financial position. The unfavourable impact of a weaker Canadian dollar, at September 30, 2020 compared to December 31, 2019, increased foreign currency denominated debt (mainly U.S. dollars) by \$141 million.

Air Canada suspended reporting its leverage ratio as this metric is not meaningful given the COVID-19 pandemic's severe impact on earnings. In the current environment, liquidity levels (refer to section 6.1 "Liquidity" of this MD&A for discussion on liquidity levels) and net cash burn (refer to section 6.5 "Consolidated Cash Flow Movements" of this MD&A for discussion on net cash burn) are part of the key measures monitored by management. Net cash burn is a non-GAAP measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

At September 30, 2020, Air Canada's weighted average cost of capital ("WACC"), on a pre-tax basis, was 7.4%. WACC is based on an estimate by management and consists of an estimated cost of equity of 18.1% and a blended average cost of debt and lease liabilities of 4.8% (comprised of an average cost of debt of 4.4% and an average cost of lease liabilities of 5.9%). This compared to WACC, on a pre-tax basis, of 7.0% at December 31, 2019 which consisted of an estimated cost of equity of 15.0% and a blended average cost of debt and lease liabilities of 5.0% (comprised of an average cost of debt of 4.1% and an average cost of lease liabilities of 6.5%).

6.4. Working Capital

The table below provides information on Air Canada's working capital balances at September 30, 2020 and at December 31, 2019.

(Canadian dollars in millions)	September 30, 2020	December 31, 2019	\$ Change
Cash, cash equivalents and short-term investments	\$ 7,775	\$ 5,889	\$ 1,886
Accounts receivable	518	926	(408)
Other current assets	450	701	(251)
Total current assets	\$ 8,743	\$ 7,516	\$ 1,227
Accounts payable and accrued liabilities	2,237	2,456	(219)
Advance ticket sales	2,322	2,939	(617)
Aeroplan and other deferred revenues	676	1,162	(486)
Current portion of long-term debt and lease liabilities	2,001	1,218	783
Total current liabilities	\$ 7,236	\$ 7,775	\$ (539)
Net working capital	\$ 1,507	\$ (259)	\$ 1,766

Net working capital of \$1,507 million at September 30, 2020 increased \$1,766 million from December 31, 2019. Working capital was favourably impacted by the financings discussed in section 3 "Overview" of this MD&A and by the reclassification of a portion of Aeroplan deferred revenues from current into long-term, reflecting an estimated reduction in Aeroplan redemptions over the next 12 months. These factors, which increased net working capital, were partially offset by negative cash flows from operating activities, reflecting the operating losses recorded in 2020 and the decline in advance ticket sales during the period due to the COVID-19 pandemic. Advance ticket sales generally increase in the first and second quarters prior to the summer peak travel season. However, as a result of the COVID-19 pandemic and the abrupt decline in travel demand, coupled with an increase in refunds to customers, the advance ticket sales liability decreased during the first nine months of 2020. In addition, the unused amounts of non-refundable tickets in respect of flights cancelled due to the COVID-19 pandemic can be converted into either a travel voucher (with no expiry date that is transferable) or into Aeroplan Miles, which may further result in lower advance sales in future periods as these unused amounts are applied to new ticket purchases. Given the uncertainty of travel demand, a portion of the advance sales liability, including non-expiring travel vouchers, may be used beyond 12 months, however the entire advance sales liability is classified as a current liability.

6.5. Consolidated Cash Flow Movements

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2020	2019	\$ Change	2020	2019	\$ Change
Net cash flows from (used in) operating activities	\$ (286)	\$ 834	\$ (1,120)	\$ (1,557)	\$ 5,035	\$ (6,592)
Proceeds from borrowings	1,114	-	1,114	6,008	-	6,008
Reduction of long-term debt and lease liabilities	(1,433)	(276)	(1,157)	(2,211)	(808)	(1,403)
Shares purchased for cancellation	-	(94)	94	(132)	(248)	116
Issue of shares	-	5	(5)	554	8	546
Financing fees	(13)	-	(13)	(75)	-	(75)
Net cash flows from (used in) financing activities	\$ (332)	\$ (365)	\$ 33	\$ 4,144	\$ (1,048)	\$ 5,192
Investments, short-term and long-term	(368)	197	(565)	(72)	(322)	250
Additions to property, equipment, and intangible assets	(282)	(301)	19	(867)	(1,774)	907
Proceeds from sale of assets	2	3	(1)	6	6	-
Acquisition of Aeroplan	-	-	-	-	(517)	517
Investment in Chorus	-	-	-	-	(97)	97
Other	4	11	(7)	41	62	(21)
Net cash flows used in investing activities	\$ (644)	\$ (90)	\$ (554)	\$ (892)	\$ (2,642)	\$ 1,750
Effect of exchange rate changes on cash and cash equivalents	\$ (37)	\$ 6	\$ (43)	\$ 5	\$ 1	\$ 4
Increase (decrease) in cash and cash equivalents	\$ (1,299)	\$ 385	\$ (1,684)	\$ 1,700	\$ 1,346	\$ 354

Net Cash Flows from (used in) Operating Activities

In the third quarter of 2020, net cash flows used in operating activities of \$286 million deteriorated by \$1,120 million from the same quarter in 2019 on lower operating results, reflecting the impact of the COVID-19 pandemic. In the first nine months of 2020, net cash used in operating activities of \$1,557 million deteriorated by \$6,592 million from the first nine months of 2019 on lower operating results and lower cash from working capital as a result of lower advance ticket sales, both reflecting the impact of the COVID-19 pandemic. The first quarter of 2019 was favourably impacted by receipts amounting to \$1,612 million in conjunction with Air Canada's acquisition of Aeroplan.

Net Cash Flows from (used in) Financing Activities

In the third quarter of 2020, net cash flows used in financing activities of \$332 million improved \$33 million from the third quarter of 2019. In the first nine months of 2020, net cash flows from financing activities of \$4,144 million increased \$5,192 million from the same period in 2019.

Net proceeds from debt financings of \$1,101 million in the third quarter of 2020 and net proceeds from equity and financings of \$6,487 million in the first nine months of 2020 reflected the impact of the transactions discussed in section 3 "Overview" of this MD&A.

Reduction of long-term debt and lease liabilities amounted to \$1,433 million in the third quarter of 2020 and \$2,211 million in the first nine months of 2020, and included lump-sum repayments of \$1,177 million in the third quarter of 2020 and \$1,432 million in the first nine months of 2020 where Air Canada refinanced or replaced the amount.

Net Cash Flows used in Investing Activities

In the third quarter of 2020, net cash flows used in investing activities of \$644 million reflected an increase of \$554 million from the third quarter of 2019, mainly due to movements between cash and short and long-term investments. In the first nine months of 2020, net cash flows used in investing activities of \$892 million reflected a reduction of \$1,750 million from the first nine months of 2019, mainly due to a lower level of net additions to property and equipment year-over-year as well as movements between cash and short and long-term investments. Additions to property and equipment is net of additional settlement payments received from Boeing related to the grounding of the 737 MAX fleet. The first quarter of 2019 included the impact of Air Canada's acquisition of Aeroplan on January 10, 2019.

Refer to sections 6.4 "Working Capital", 6.2 "Financial Position", 6.3 "Net Debt" and 6.9 "Share Information" of this MD&A for additional information.

Free Cash Flow

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

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2020	2019	\$ Change	2020	2019	\$ Change
Net cash flows from (used in) operating activities	\$ (286)	\$ 834	\$ (1,120)	\$ (1,557)	\$ 5,035	\$ (6,592)
Additions to property, equipment, and intangible assets	(282)	(301)	19	(867)	(1,774)	907
One-time proceeds related to the acquisition of Aeroplan (as described above)	-	-	-	-	(1,612)	1,612
Free cash flow ⁽¹⁾	\$ (568)	\$ 533	\$ (1,101)	\$ (2,424)	\$ 1,649	\$ (4,073)

(1) Free cash flow is a non-GAAP financial measure used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash it can generate from operations after capital expenditures and after one-time proceeds related to the acquisition of Aeroplan. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets. The one-time proceeds related to the acquisition of Aeroplan in 2019 were also excluded from Air Canada's calculation of free cash flow. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

In the third quarter of 2020, negative free cash flow of \$568 million deteriorated by \$1,101 million from the third quarter of 2019, reflecting lower cash flows from operating activities due to the impact of the COVID-19 pandemic.

In the first nine months of 2020, negative free cash flow of \$2,424 million deteriorated by \$4,073 million from the first nine months of 2019, reflecting lower cash flows from operating activities due to the impact of the COVID-19 pandemic, partially offset by a lower level of capital expenditures year-over-year.

Net Cash Burn

The table below provides the calculation of net cash burn for Air Canada for the periods indicated.

(Canadian dollars in millions)	Third Quarter 2020	First Nine Months 2020
Net cash flows used in operating activities	\$ (286)	\$ (1,557)
Net cash flows from (used in) financing activities	(332)	4,144
Net cash flows used in investing activities	(644)	(892)
Remove:		
Net proceeds from new financings	(1,101)	(6,487)
Lump-sum debt repayments	1,177	1,432
Investments, short-term and long-term	368	72
Net cash burn ⁽¹⁾	\$ (818)	\$ (3,288)

(1) Net cash burn is a non-GAAP financial measure used by Air Canada as a measure of cash used to maintain operations, support capital expenditures, and settle normal debt repayments, all before the net impact of new financing proceeds. Net cash burn is defined as net cash flows from operating, financing, and investing activities, and excludes proceeds from new financings and any lump sum debt maturities where the Corporation has refinanced or replaced the amount. Net cash burn also excludes movements between cash and short and long-term investments.

In the third quarter of 2020, net cash burn of \$818 million (or approximately \$9 million per day, on average) was significantly better than management's net cash burn expectations of between \$1.35 billion and \$1.6 billion (or between \$15 million and \$17 million per day, on average). This was due to a number of factors, including the deferral of certain capital expenditures, higher cash receipts related to the CEWS program, and additional working capital benefits resulting from both a deferral of supplier payments into future periods and from income and sales tax recoveries which had been forecast to occur in later periods.

6.6. Capital Expenditures and Related Financing Arrangements

Boeing 737 MAX Aircraft

Under a purchase agreement concluded by Air Canada and The Boeing Company ("Boeing") in March 2014, Air Canada had a firm order for 61 Boeing 737 MAX aircraft, comprised of 33 737 MAX 8 and 28 737 MAX 9 aircraft, with substitution rights between them as well as for the 737 MAX 7 aircraft. It also provided for options for 18 aircraft and certain rights to purchase an additional 30 aircraft.

In 2019, Air Canada concluded its discussions with Boeing to settle the terms of an arrangement in relation to the grounding of the Boeing 737 MAX aircraft. The settlement payments contemplated by the arrangement were made to Air Canada during the fourth quarter of 2019 and during the first and second quarters of 2020. The compensation is accounted for as an adjustment to the purchase price of current and future deliveries and will flow through Air Canada's consolidated statement of operations as reduced depreciation expense over the life of the aircraft, and as a reduction to additions to property and equipment on the consolidated statement of cash flow.

In the first quarter of 2020, Air Canada finalized an amendment to its 2014 order, reducing its initial order by 11 Boeing 737 MAX 9 aircraft previously scheduled for delivery in 2023 and 2024. This amendment reflected Air Canada's evolving and long-term fleet planning requirements as of that time.

Twenty-four Boeing 737 MAX 8 aircraft have been delivered to date.

In early November 2020, Air Canada amended its agreement with Boeing to cancel 10 Boeing 737 MAX 8 aircraft deliveries from its firm order of 50 aircraft and to defer its remaining 16 aircraft deliveries over the late 2021 to 2023 period. The capital commitments table below has been updated to reflect the cancellation and the changes to the delivery schedule. As part of this amendment, options for eight aircraft and the rights to purchase an additional 30 aircraft were also cancelled.

Airbus A220-300 Aircraft

Under a June 2016 purchase agreement with Airbus Canada Limited Partnership (as successor to Bombardier Inc.), Air Canada has a firm order for 45 Airbus A220-300 aircraft (formerly called Bombardier C-Series CS300 aircraft) and options for an additional 30 Airbus A220-300 aircraft.

Air Canada concluded an amendment to the purchase agreement effective in early November 2020. As a result, Air Canada has deferred 18 aircraft deliveries over 2021 and 2022 and will not be purchasing the last 12 Airbus A220 aircraft included in the firm order. At September 30, 2020, Air Canada had taken delivery of 10 Airbus A220 aircraft and expects to take delivery of an additional five in the fourth quarter of 2020. The capital commitments table below has been updated to reflect the cancellation and the changes to the delivery schedule.

As disclosed in section 3 "Overview" of this MD&A, in September 2020, Air Canada concluded a committed secured facility totaling \$788 million to finance the purchase of the first 18 Airbus A220 aircraft.

Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at September 30, 2020 approximates \$2,695 million. The table below includes the impact of the capital reduction and deferral program discussed in section 3 "Overview" of this MD&A.

(Canadian dollars in millions)	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
Projected committed expenditures	\$ 281	\$ 943	\$ 1,111	\$ 360	\$ -	\$ -	\$ 2,695
Projected planned but uncommitted expenditures	22	277	463	321	515	Not available	Not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	9	185	196	211	216	Not available	Not available
Total projected expenditures ⁽²⁾	\$ 312	\$ 1,405	\$ 1,770	\$ 892	\$ 731	Not available	Not available

(1) Future capitalized maintenance amounts for 2023 and beyond are not yet determinable, however estimates of \$211 million and \$216 million have been made for 2023 and 2024.

(2) U.S. dollar amounts are converted using the September 30, 2020 closing exchange rate of US\$1=C\$1.3319. 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 30, 2020.

6.7. Pension Funding Obligations

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans, supplemental pension plans and pension plans for foreign employees. Air Canada also has several defined contribution pension plans as well as plans providing other retirement and post-employment benefits to its employees.

At September 30, 2020, the aggregate solvency surplus in Air Canada's domestic registered pension plans was \$2.7 billion. As permitted by applicable legislation and subject to applicable plan rules,

amounts in excess of 105% on a solvency basis may be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Total employer defined benefit pension funding contributions (including the international and supplemental plans) are forecasted to be \$100 million in 2020.

At September 30, 2020, approximately 75% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada seeks to maintain a high percentage of long-term fixed income products to hedge pension liabilities.

6.8. Contractual Obligations

The table below provides Air Canada's contractual obligations as at September 30, 2020, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures. The committed capital expenditures in the table below may change once the duration and related impact of the grounding of the Boeing 737 MAX aircraft are known. The contractual obligations reported below do not reflect the impact of the fleet changes being implemented subsequent to September 30, 2020 and which impacts are still being determined.

(Canadian dollars in millions)	Remainder of 2020	2021 ⁽²⁾	2022	2023	2024	Thereafter	Total
<u>Principal</u>							
Long-term debt	\$ 93	\$ 1,478	\$ 666	\$ 2,352	\$ 1,252	\$ 4,437	\$ 10,278
Lease liabilities	164	515	448	439	401	1,391	3,358
Total principal obligations	\$ 257	\$ 1,993	\$ 1,114	\$ 2,791	\$ 1,653	\$ 5,828	\$ 13,636
<u>Interest</u>							
Long-term debt	113	408	360	325	236	429	1,871
Lease liabilities	47	161	130	105	82	361	886
Total interest	\$ 160	\$ 569	\$ 490	\$ 430	\$ 318	\$ 790	\$ 2,757
Total long-term debt and lease liabilities	\$ 417	\$ 2,562	\$ 1,604	\$ 3,221	\$ 1,971	\$ 6,618	\$ 16,393
Committed capital expenditures	\$ 281	\$ 943	\$ 1,111	\$ 360	\$ -	\$ -	\$ 2,695
Total contractual obligations ⁽¹⁾	\$ 698	\$ 3,505	\$ 2,715	\$ 3,581	\$ 1,971	\$ 6,618	\$ 19,088

(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 and lease liabilities due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.

(2) 2021 debt repayments include \$371 million remaining on a bridge loan related to the purchase of Airbus A220 aircraft, as further described in section 3 "Overview" of this MD&A. Subsequent to the delivery of the remaining nine Airbus A220 aircraft under this loan, a secured facility is in place that allows Air Canada to defer the debt repayment related to these aircraft over 12 years from the delivery date.

Air Canada is committed to additional aircraft leases which have yet to commence. Based on estimates regarding timing of delivery and rent, the total commitment is approximately \$358 million. The aircraft lease terms range from eight to 10 years.

6.9. 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, 2020	December 31, 2019
Issued and outstanding shares		
Variable voting shares	104,108,797	126,664,740
Voting shares	192,598,512	137,151,838
Total issued and outstanding shares	296,707,309	263,816,578
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	48,687,441	-
Stock options	5,884,749	4,890,095
Total shares potentially issuable	54,572,190	4,890,095
Total outstanding and potentially issuable shares	351,279,499	268,706,673

Normal Course Issuer Bid

In response to the COVID-19 pandemic, in early March 2020, Air Canada suspended share purchases under its normal course issuer bid (which had received approval from the Toronto Stock Exchange for the renewal of its previous normal course issuer bid) for its Class A variable voting shares and Class B voting shares (collectively the "shares"). Air Canada's normal course issuer bid expired in May 2020 and Air Canada did not renew it. As such, no shares were purchased in the third quarter of 2020.

In the first quarter of 2020, Air Canada purchased, for cancellation, a total of 2,910,800 shares at an average cost of \$43.76 per share for aggregate consideration of \$127 million.

Share Offering

In June 2020, Air Canada completed an underwritten marketed public offering of 35,420,000 shares class A variable voting shares and/or class B voting shares of Air Canada at a price of \$16.25 per share, for aggregate gross proceeds of \$576 million, which includes the exercise in full by the underwriters of their over-allotment option to purchase up to 4,620,000 shares for gross proceeds of \$75 million. After deduction of the underwriters' fees and expenses of the offering, net proceeds amounted to \$552 million. Air Canada also concluded a concurrent marketed private placement of convertible senior unsecured notes due 2025. Refer to section 3 "Overview" of this MD&A for additional information.

Definitive Arrangement Agreement for the Acquisition of Transat

As discussed in section 3 "Overview" of this MD&A, on October 10, 2020, Air Canada announced amendments to the acquisition transaction with Transat. Assuming closing of the acquisition of Transat and that all Transat shareholders elect to receive Air Canada shares as consideration for their Transat shares (and that no holders of options of Transat exercise their options before the applicable election deadline and elect to receive Air Canada shares for the Transat shares underlying their options), Air Canada would expect to issue an aggregate of up to 10,803,217 shares in connection with the acquisition (based on 37,747,090 outstanding shares of Transat, as reported by Transat). The table above does not reflect the potential issuance of these shares.

7. QUARTERLY FINANCIAL DATA

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

(Canadian dollars in millions, except where indicated)	2018	2019				2020		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating revenues	\$ 4,227	\$ 4,434	\$ 4,738	\$ 5,529	\$ 4,429	\$ 3,722	\$ 527	\$ 757
Operating expenses	4,048	4,307	4,316	4,573	4,284	4,155	2,082	1,542
Operating income (loss)	179	127	422	956	145	(433)	(1,555)	(785)
Non-operating income (expense)	(570)	158	18	(78)	27	(843)	74	(36)
Income (loss) before income taxes	(391)	285	440	878	172	(1,276)	(1,481)	(821)
Income tax (expense) recovery	31	60	(97)	(242)	(20)	227	(271)	136
Net income (loss)	\$ (360)	\$ 345	\$ 343	\$ 636	\$ 152	\$ (1,049)	\$ (1,752)	\$ (685)
Diluted earnings (loss) per share	\$ (1.33)	\$ 1.26	\$ 1.26	\$ 2.35	\$ 0.56	\$ (4.00)	\$ (6.44)	\$ (2.31)
Adjusted pre-tax income (loss)⁽¹⁾	\$ 68	\$ 24	\$ 326	\$ 857	\$ 66	\$ (520)	\$ (1,438)	\$ (1,141)

(1) Adjusted pre-tax income (loss) is a non-GAAP financial measure. A reconciliation of this measure to a comparable GAAP measure can be found in section 16 "Non-GAAP Financial Measures" of this MD&A.

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

(Canadian dollars in millions)	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Capacity purchase fees ⁽¹⁾	\$ 247	\$ 266	\$ 277	\$ 253	\$ 117	\$ 127
Airport and navigation	74	78	71	63	12	24
Sales and distribution costs	41	43	38	33	(1)	12
Other	113	114	119	122	44	35
Total regional airlines expense	\$ 475	\$ 501	\$ 505	\$ 471	\$ 172	\$ 198

(1) Capacity purchase fees exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16 – Leases.

The table below provides major quarterly operating statistics for Air Canada for the last six quarters.

System	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
PRASM (cents)	15.5	15.8	15.0	13.6	9.2	8.5
CASM (cents)	15.5	14.1	16.2	17.7	92.9	25.9
Adjusted CASM (cents) ⁽¹⁾	11.1	10.1	11.9	13.1	76.9	26.1
Fuel cost per litre (cents) ⁽²⁾	79.2	74.7	75.0	69.2	51.8	52.5

(1) Adjusted CASM is a non-GAAP financial measure. A reconciliation of this measure to a comparable GAAP measure can be found in section 16 "Non-GAAP Financial Measures" of this MD&A.

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

The table below 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.

System	2018	2019				2020		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
RPMs (millions)	20,801	21,293	23,463	27,954	21,403	17,507	783	2,517
ASMs (millions)	25,598	26,016	27,910	32,457	26,431	23,511	2,243	5,949
Passenger load factor (%)	81.3	81.8	84.1	86.1	81.0	74.5	34.9	42.3
Domestic								
RPMs (millions)	4,684	4,251	5,097	6,298	4,682	3,604	376	1,413
ASMs (millions)	5,667	5,274	6,068	7,474	5,861	4,930	876	2,504
Passenger load factor (%)	82.7	80.6	84.0	84.3	79.9	73.1	43.0	56.4
U.S. Transborder								
RPMs (millions)	3,734	4,296	3,845	4,010	3,695	3,322	25	97
ASMs (millions)	4,662	5,341	4,686	4,764	4,700	4,741	106	250
Passenger load factor (%)	80.1	80.4	82.0	84.2	78.6	70.1	23.8	38.6
Atlantic								
RPMs (millions)	5,813	4,943	7,496	10,580	6,265	4,369	214	694
ASMs (millions)	7,206	6,177	8,882	12,068	7,710	5,964	888	2,306
Passenger load factor (%)	80.6	80.0	84.4	87.7	81.3	73.3	24.1	30.1
Pacific								
RPMs (millions)	4,514	4,486	5,072	5,364	4,504	3,026	113	182
ASMs (millions)	5,541	5,367	5,971	6,217	5,456	3,957	290	658
Passenger load factor (%)	81.5	83.6	84.9	86.3	82.6	76.5	38.9	27.7
Other								
RPMs (millions)	2,056	3,317	1,953	1,702	2,257	3,186	55	131
ASMs (millions)	2,522	3,857	2,303	1,934	2,704	3,919	83	231
Passenger load factor (%)	81.6	86.0	84.8	88.0	83.5	81.3	66.3	56.8

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 13 "Financial Instruments and Risk Management" of Air Canada's 2019 MD&A. There have been no material changes to Air Canada's financial instruments and risk management practices from that which was disclosed at that time.

Additional information on Air Canada's risk management practices and financial instruments is discussed in Note 11 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2020.

9. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in section 14 "Accounting Policies" of Air Canada's 2019 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time with the exception of the addition below. Additional information on Air Canada's accounting policies is discussed in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the third quarter of 2020.

Government grants

Air Canada recognizes government grants when there is reasonable assurance that the grant will be received, and that Air Canada will comply with the conditions of the grant. Government grants receivable are recorded in accounts receivable on Air Canada's consolidated statement of financial position. Air Canada recognizes government grants in its consolidated statement of operations in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in profit or loss in the period in which it becomes receivable.

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Air Canada's critical accounting estimates and judgments are summarized in section 15 "Critical Accounting Estimates and Judgments" of Air Canada's 2019 MD&A. There have been no material changes to this section from what was disclosed at that time with the exception of the following which has been updated to reflect the currently known impact of the COVID-19 pandemic and continues to fluidly evolve.

Goodwill

An assessment of goodwill was performed at period end in light of the current COVID-19 pandemic. Results from the assessment indicated a market capitalization greater than the carrying value of Air Canada's net assets excluding long-term debt; accordingly, no impairment charge was recorded.

Impairment considerations on long-lived assets

An assessment of the recoverable amount of Air Canada's cash-generating units ("CGUs") compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The recoverable amount of the cash-generating units has been measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model would represent a level 3 fair value measurement within the IFRS 13 fair value hierarchy. The cash flows are management's best projections based on current and anticipated market conditions covering a five-year period. However, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance relative to these projections could occur if passenger demand is below projected levels and travel restrictions continue to prevail with duration and impact greater than currently anticipated. The recoverable amount of both cash-generating units continues to exceed their respective carrying values. Reasonably possible changes in projections have been considered in this evaluation but do not indicate that the carrying values exceed recoverable amounts.

Key assumptions used were a 9.2% discount rate applied to the cash flow projections and was derived from market participant assumptions regarding Air Canada's weighted average cost of capital adjusted for taxes and specific risks associated with the cash-generating unit being tested. Cash flows beyond the five-year period are projected to increase at 2.5% consistent with the long-term growth assumption of the airline industry considering various factors such as Air Canada's fleet plans and industry growth assumptions.

The COVID-19 pandemic and its impact on the economy are constantly evolving in an unpredictable manner and present many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on Air Canada's anticipated revenue levels and the recoverable amount of the CGUs.

An impairment assessment of the aircraft that will be permanently leaving the fleet was done separately from Air Canada's CGUs with an impairment charge of \$295 million recorded in Special items in the second quarter of 2020 as described in section 4 "Results of Operations" of this MD&A.

Income taxes

Commencing in the second quarter of 2020, the deferred income tax assets related to unused tax losses and other deductible temporary differences were not recognized. Management assessed the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. As a result of the COVID-19 pandemic, there is considerable negative evidence relating to losses incurred in the current year and uncertainty exists as to when conditions will improve. Such negative evidence currently outweighs the positive historical evidence and accordingly, the net deferred tax asset was not recognized. Deferred tax assets have only been recognized to the extent of taxable temporary differences expected to reverse and generate taxable income against which the deferred tax assets can be utilized. The future income tax deductions underlying the unrecognized deferred income tax assets remain available for use in the future to reduce taxable income.

Maintenance provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates consider current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred at the end of the lease and the amount of the provision is recorded in Aircraft maintenance expense in the period.

In the third quarter of 2020 and as a result of updated cost estimates in preparation for returning these aircraft to lessors upon lease expiry, a favourable adjustment to aircraft maintenance expense of \$72 million was recorded primarily related to Airbus A320 and regional aircraft. These aircraft leases are naturally expiring and are not part of the accelerated retirements discussed in section 3 "Overview" of this MD&A. The cost to meet contractual return conditions on upcoming lease returns has been favourably impacted due to reduced flying since the last maintenance event and projected to the lease expiry dates as a result of the COVID-19 pandemic.

The COVID-19 pandemic and its impact on the economy are constantly evolving in an unpredictable manner and present many variables and contingencies for modelling. In future periods, the effects of the pandemic may have material impacts on Air Canada's anticipated revenue levels and the recoverable amount of the CGUs.

11. OFF-BALANCE SHEET ARRANGEMENTS

Air Canada's off-balance sheet arrangements are summarized in section 16 "Off-Balance Sheet Arrangements" of Air Canada's 2019 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

12. RELATED PARTY TRANSACTIONS

At September 30, 2020, 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.

13. SENSITIVITY OF RESULTS

In its 2019 MD&A, Air Canada provided the financial impact that changes in fuel prices and the value of the Canadian dollar would generally have had on Air Canada's past operating results. In light of the COVID-19 pandemic and its impact on Air Canada's financial results, the information provided at that time is not indicative of future trends or results and, given the uncertainty, it is not possible for Air Canada to predict any such trends or results.

14. RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 20 "Risk Factors" of Air Canada's 2019 MD&A. Except as otherwise discussed in this MD&A and the following update, there have been no material changes to Air Canada's risk factors from what was disclosed at that time.

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue and cash flows as a result of COVID-19 pandemic and the travel restrictions imposed in many countries around the world, particularly in Canada and other countries, for example, Japan, Australia and some European countries. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. There is very limited visibility on future travel demand given changing government restrictions in place around the world and the severity of the restrictions in Canada; these restrictions and concerns about travel due to the COVID-19 pandemic as well as passenger concerns and expectations about the need for certain precautions such as physical distancing are severely inhibiting demand. The COVID-19 pandemic is also having significant economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. Air Canada cannot predict the full impact or the timing for when conditions improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, availability of rapid, effective testing and vaccinations for the virus, government actions, and passenger reaction, as well as timing of a recovery in international and business travel which are important segments of Air Canada's market, none of which can be predicted with any degree of certainty.

Air Canada has taken and implemented a number of safety measures in light of the COVID-19 pandemic, including the Air Canada CleanCare+ program and has publicly appealed to governments and other parties in an effort to recognize the efficacy of such safety measures and to allow for a measured and responsible reduction of travel restrictions which other jurisdictions have adopted. Air Canada will continue to be adversely impacted to the extent that such restrictions remain in place over time. Air Canada as well as its brand and reputation may also be adversely impacted to the extent it is perceived that safety measures introduced do not adequately address the risks of transmission of COVID-19 or justify relaxing the travel restrictions imposed by governments.

Air Canada's operations could also be adversely impacted further if our employees (or third party employees such as those of airports or suppliers) are unable or restricted in their ability to work, including by reasons of being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions.

As a result of the COVID-19 pandemic, Air Canada reduced second and third quarter 2020 ASM capacity by 92.0% and 81.7%, respectively, compared to same quarters in 2019, and plans to reduce fourth quarter 2020 capacity by approximately 75% compared to the fourth quarter of 2019. The airline will

continue to dynamically adjust capacity and take other measures as required to adjust for demand including as a result of health warnings, travel restrictions, border closures and passenger demand.

Air Canada is providing customers who booked with Air Canada and who are affected by cancellations with the option to convert their ticket to an Air Canada travel voucher that has no expiry date and is fully transferable. Alternatively, customers may convert the unused value of their ticket into Aeroplan Miles with additional bonus miles. Air Canada is refunding refundable fares according to the terms and conditions that govern them. Air Canada may be required to refund non-refundable fares depending on the laws of the jurisdictions applicable to such flights. Not refunding non-refundable tickets exposes Air Canada to litigation, including class actions, as well as enforcement action by regulators in certain jurisdictions and may also adversely impact Air Canada's brand and reputation. In countries where refund requirements are or will be maintained or enforced, ensuing refunds will impact Air Canada's liquidity.

These risks have materially affected Air Canada and could have a further material adverse impact on Air Canada's financial position and results of operations.

Refer to section 3 "Overview" of this MD&A for information on financing activities and other actions taken in response to the COVID-19 crisis and to section 10 "Critical Accounting Estimates and Judgments" of this MD&A for considerations related to critical estimates and judgments updated to reflect the currently known impact of the COVID-19 pandemic.

15. 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 Deputy Chief Executive Officer and Chief Financial Officer ("CFO") and its Disclosure 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 2019 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 2020 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 material changes to the Corporation's internal controls over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

16. NON-GAAP FINANCIAL MEASURES

Below is a description of certain non-GAAP financial measures used by Air Canada to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results.

EBITDA

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

EBITDA is reconciled to GAAP operating income (loss) as follows:

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2020	2019	\$ Change	2020	2019	\$ Change
Operating income (loss) – GAAP	\$ (785)	\$ 956	\$ (1,741)	\$ (2,773)	\$ 1,505	\$ (4,278)
Add back:						
Depreciation and amortization	423	516	(93)	1,414	1,466	(52)
EBITDA (including special items)	\$ (362)	\$ 1,472	\$ (1,834)	\$ (1,359)	\$ 2,971	\$ (4,330)
Remove effect of special items ⁽¹⁾	(192)	-	(192)	44	-	44
EBITDA (excluding special items)	\$ (554)	\$ 1,472	\$ (2,026)	\$ (1,315)	\$ 2,971	\$ (4,286)

(1) In the third quarter of 2020, Air Canada recorded special items related to the COVID-19 pandemic amounting to a net reduction of \$192 million (a net charge of \$44 million in the first nine months of 2020). Refer to section 4 "Results of Operations" of this MD&A for additional information.

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.

In calculating adjusted CASM, aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations which some airlines, without comparable tour operator businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

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

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2020	2019	\$ Change	2020	2019	\$ Change
Operating expense – GAAP	\$ 1,542	\$ 4,574	\$ (3,032)	\$ 7,779	\$ 13,197	\$ (5,418)
Adjusted for:						
Aircraft fuel expense	(175)	(1,220)	1,045	(1,135)	(3,334)	2,199
Ground package costs	(5)	(86)	81	(236)	(496)	260
Special items ⁽¹⁾	192	-	192	(44)	-	(44)
Operating expense, adjusted for the above-noted items	\$ 1,554	\$ 3,268	\$ (1,714)	\$ 6,364	\$ 9,367	\$ (3,003)
ASMs (millions)	5,949	32,457	(81.7)%	31,703	86,383	(63.3)%
Adjusted CASM (cents)	¢ 26.12	¢ 10.07	159.5%	¢ 20.07	¢ 10.84	85.1%

(1) In the third quarter of 2020, Air Canada recorded special items related to the COVID-19 pandemic amounting to a net reduction of \$192 million (a net charge of \$44 million in the first nine months of 2020). Refer to section 4 "Results of Operations" of this MD&A for additional information.

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 expense relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets, and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

Adjusted pre-tax income (loss) is reconciled to GAAP income before income taxes as follows:

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2020	2019	\$ Change	2020	2019	\$ Change
Income (loss) before income taxes – GAAP	\$ (821)	\$ 878	\$ (1,699)	\$ (3,578)	\$ 1,603	\$ (5,181)
Adjusted for:						
Special items ⁽¹⁾	(192)	-	(192)	44	-	44
Foreign exchange (gain) loss	(88)	(27)	(61)	381	(407)	788
Net financing expense relating to employee benefits	6	10	(4)	26	29	(3)
(Gain) loss on financial instruments recorded at fair value	(46)	(4)	(42)	28	(18)	46
Adjusted pre-tax income (loss)	\$ (1,141)	\$ 857	\$ (1,998)	\$ (3,099)	\$ 1,207	\$ (4,306)

(1) In the third quarter of 2020, Air Canada recorded special items related to the COVID-19 pandemic amounting to a net reduction of \$192 million (a net charge of \$44 million in the first nine months of 2020). Refer to section 4 "Results of Operations" of this MD&A for additional information.

Free Cash Flow

Air Canada uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada 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. Free cash flow in 2019 also excludes the one-time proceeds related to the Aeroplan acquisition. Refer to section 6.5 "Consolidated Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

Net Cash Burn

Air Canada uses net cash burn as a measure of cash used to maintain operations, support capital expenditures, and settle normal debt repayments, all before the net impact of new financing proceeds. Net cash burn is defined as net cash flows from operating, financing, and investing activities, and excludes proceeds from new financings, and lump sum debt maturities made where the Corporation has refinanced or replaced the amount. Net cash burn also excludes movements between cash and short and long-term investments. Refer to section 6.5 "Consolidated Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

17. 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. Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Adjusted pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of foreign exchange gains or losses, net financing expense relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets, and special items. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Aeroplan – Refers to Aeroplan Inc.

Atlantic passenger and cargo revenues – Refers 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 – Refers to revenues from flights within Canada.

EBITDA – Refers to earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information. Air Canada excludes special items from EBITDA.

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 in 2019 also excludes the one-time proceeds related to the Aeroplan acquisition. Free cash flow is a non-GAAP financial measure. Refer to sections 6.5 "Consolidated Cash Flow Movements" and 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

Jazz CPA – Refers to the capacity purchase agreement between Air Canada and Jazz.

Loss (gain) on debt settlements and modifications – Refers to gains or losses related to debt settlements and modifications 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.

Net cash burn – Refers to net cash flows from operating, financing, and investing activities, excluding proceeds from new financings, a lump sum debt maturity made in March 2020 of \$255 million and any future lump sum debt maturities where the Corporation has refinanced or replaced the amount. Net cash burn also excludes movements between cash and short and long-term investments. Refer to sections 6.5 "Consolidated Cash Flow Movements" and 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

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

Pacific passenger and cargo revenues – Refers 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.

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

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