



# Third Quarter 2022

INTERIM UNAUDITED

Condensed Consolidated Financial  
Statements and Notes

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October 28, 2022

 **AIR CANADA**

A STAR ALLIANCE MEMBER 

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

Unaudited (Canadian dollars in millions)	September 30, 2022	December 31, 2021 Restated- Note 2
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <span style="float: right;">Note 2</span>	\$ 2,646	\$ 4,415
Short-term investments	5,844	4,554
<b>Total cash, cash equivalents and short-term investments</b>	<b>8,490</b>	<b>8,969</b>
Accounts receivable	1,013	691
Aircraft fuel inventory	238	122
Spare parts and supplies inventory	108	102
Prepaid expenses and other current assets	346	169
<b>Total current assets</b>	<b>10,195</b>	<b>10,053</b>
Investments, deposits and other assets	964	858
Property and equipment	11,885	11,740
Pension assets	2,334	3,571
Deferred income tax	49	39
Intangible assets	1,054	1,080
Goodwill	3,273	3,273
<b>Total assets</b>	<b>\$ 29,754</b>	<b>\$ 30,614</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,495	\$ 2,603
Advance ticket sales	3,998	2,326
Aeroplan and other deferred revenue	1,276	983
Current portion of long-term debt and lease liabilities <span style="float: right;">Note 4</span>	1,236	1,012
<b>Total current liabilities</b>	<b>9,005</b>	<b>6,924</b>
Long-term debt and lease liabilities <span style="float: right;">Note 4</span>	15,799	15,511
Aeroplan and other deferred revenue	3,195	3,656
Pension and other benefit liabilities	1,850	2,588
Maintenance provisions	1,293	1,032
Other long-term liabilities	470	821
Deferred income tax	73	73
<b>Total liabilities</b>	<b>\$ 31,685</b>	<b>\$ 30,605</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital	2,740	2,735
Contributed surplus	117	104
Accumulated other comprehensive loss	(60)	(45)
Deficit	(4,728)	(2,785)
<b>Total shareholders' equity (deficiency)</b>	<b>(1,931)</b>	<b>9</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 29,754</b>	<b>\$ 30,614</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Unaudited (Canadian dollars in millions except per share figures)	Three months ended September 30		Nine months ended September 30		
	2022	2021	2022	2021	
<b>Operating revenues</b>					
Passenger	Note 10	\$ 4,818	\$ 1,636	\$ 10,176	\$ 2,457
Cargo	Note 10	281	366	978	1,005
Other		223	101	722	207
<b>Total revenues</b>		<b>5,322</b>	<b>2,103</b>	<b>11,876</b>	<b>3,669</b>
<b>Operating expenses</b>					
Aircraft fuel		1,617	472	3,817	911
Wages, salaries and benefits		816	592	2,272	1,617
Regional airlines expense, excluding fuel		400	312	1,083	700
Depreciation and amortization		413	400	1,223	1,217
Aircraft maintenance	Note 2	193	153	414	430
Airport and navigation fees		299	166	723	373
Sales and distribution costs		217	74	496	142
Ground package costs		80	23	311	29
Catering and onboard services		120	52	278	94
Communications and information technology		112	85	331	271
Special items	Note 3	-	(103)	4	(157)
Other		411	241	1,083	588
<b>Total operating expenses</b>		<b>4,678</b>	<b>2,467</b>	<b>12,035</b>	<b>6,215</b>
<b>Operating income (loss)</b>		<b>644</b>	<b>(364)</b>	<b>(159)</b>	<b>(2,546)</b>
<b>Non-operating income (expense)</b>					
Foreign exchange (loss)		(951)	(136)	(1,048)	(74)
Interest income		46	17	97	54
Interest expense	Note 4	(239)	(197)	(664)	(538)
Interest capitalized		3	4	8	13
Net interest relating to employee benefits		9	(1)	17	(10)
Financial instruments recorded at fair value	Note 9	(25)	114	89	(114)
Gain (loss) on debt settlements and modifications	Note 4	17	(110)	17	(129)
Other		(8)	(6)	(27)	(20)
<b>Total non-operating expense</b>		<b>(1,148)</b>	<b>(315)</b>	<b>(1,511)</b>	<b>(818)</b>
<b>Loss before income taxes</b>		<b>(504)</b>	<b>(679)</b>	<b>(1,670)</b>	<b>(3,364)</b>
Income tax recovery (expense)	Note 5	(4)	39	(198)	255
<b>Net loss for the period</b>		<b>\$ (508)</b>	<b>\$ (640)</b>	<b>\$ (1,868)</b>	<b>\$ (3,109)</b>
<b>Net loss per share</b>	Note 7				
Basic loss per share		\$ (1.42)	\$ (1.79)	\$ (5.22)	\$ (8.90)
Diluted loss per share		\$ (1.42)	\$ (1.79)	\$ (5.22)	\$ (8.97)

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

Unaudited (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Comprehensive income (loss)</b>				
Net loss for the period	\$ (508)	\$ (640)	\$ (1,868)	\$ (3,109)
Other comprehensive income (loss), net of tax: <span style="float: right;">Note 5</span>				
Items that will not be reclassified to net income				
Remeasurements on employee benefit liabilities	43	220	(75)	950
Remeasurements on equity investments	(14)	(15)	(15)	1
<b>Total comprehensive loss</b>	<b>\$ (479)</b>	<b>\$ (435)</b>	<b>\$ (1,958)</b>	<b>\$ (2,158)</b>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

Unaudited (Canadian dollars in millions)	Share capital	Contributed surplus	Accumulated OCI	Deficit	Total shareholders' equity (deficiency)
January 1, 2021	\$ 2,150	\$ 98	\$ (39)	\$ (494)	\$ 1,715
Net loss	–	–	–	(3,109)	(3,109)
Remeasurements on employee benefit liabilities	–	–	–	950	950
Remeasurements on equity investments	–	–	1	–	1
Total comprehensive loss	–	–	1	(2,159)	(2,158)
Share-based compensation	–	10	–	–	10
Shares issued, net (Note 6)	584	(6)	–	–	578
September 30, 2021	\$ 2,734	\$ 102	\$ (38)	\$ (2,653)	\$ 145
January 1, 2022	\$ 2,735	\$ 104	\$ (45)	\$ (2,785)	\$ 9
Net loss	–	–	–	(1,868)	(1,868)
Remeasurements on employee benefit liabilities	–	–	–	(75)	(75)
Remeasurements on equity investments	–	–	(15)	–	(15)
Total comprehensive loss	–	–	(15)	(1,943)	(1,958)
Share-based compensation	–	14	–	–	14
Shares issued	5	(1)	–	–	4
September 30, 2022	\$ 2,740	\$ 117	\$ (60)	\$ (4,728)	\$ (1,931)

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOW**

Unaudited (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021 Restated - Note 2	2022	2021 Restated- Note 2
<b>Cash flows from (used in)</b>				
<b>Operating</b>				
Net loss for the period	\$ (508)	\$ (640)	\$ (1,868)	\$ (3,109)
Adjustments to reconcile to net cash from operations				
Deferred income tax	Note 5	(14)	(45)	156
Depreciation and amortization		413	400	1,223
Foreign exchange (gain) loss		961	93	1,027
Employee benefit funding less than expense		22	64	104
Financial instruments recorded at fair value	Note 9	25	(114)	(89)
(Gain) loss on debt settlements and modifications	Note 4	(17)	110	(17)
Change in maintenance provisions		39	7	71
Changes in non-cash working capital balances		(614)	449	1,143
Special items	Note 3	-	(13)	4
Other		(17)	(6)	73
<b>Net cash flows from (used in) operating activities</b>		<b>290</b>	<b>305</b>	<b>1,721</b>
<b>Financing</b>				
Proceeds from borrowings	Note 4	41	6,760	202
Reduction of long-term debt and lease liabilities	Note 4	(573)	(2,953)	(1,074)
Issue of shares	Note 6	2	-	4
Financing fees	Note 4	(4)	(196)	(5)
<b>Net cash flows from (used in) financing activities</b>		<b>(534)</b>	<b>3,611</b>	<b>(873)</b>
<b>Investing</b>				
Investments, short-term and long-term		276	(1,299)	(1,394)
Additions to property, equipment and intangible assets		(333)	(149)	(1,245)
Proceeds from sale of assets		4	5	9
Proceeds from sale and leaseback of assets		-	-	-
Other		(3)	20	(5)
<b>Net cash flows (used in) investing activities</b>		<b>(56)</b>	<b>(1,423)</b>	<b>(2,635)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>-</b>	<b>53</b>	<b>18</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(300)</b>	<b>2,546</b>	<b>(1,769)</b>
Cash and cash equivalents, beginning of period		2,946	2,766	4,415
<b>Cash and cash equivalents, end of period</b>		<b>\$ 2,646</b>	<b>\$ 5,312</b>	<b>\$ 2,646</b>
<b>Cash payments of interest</b>	Note 4	<b>\$ 235</b>	<b>\$ 136</b>	<b>\$ 572</b>
<b>Cash payments (recoveries) of income taxes</b>		<b>\$ (4)</b>	<b>\$ (42)</b>	<b>\$ 60</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements (unaudited)  
(Canadian dollars except where otherwise indicated)

## 1. GENERAL INFORMATION

The accompanying unaudited interim condensed consolidated financial statements (the “financial statements”) are of Air Canada (the “Corporation”). The term “Corporation” also refers to, as the context may require, Air Canada and/or one or more of its subsidiaries, including its principal wholly-owned operating subsidiaries, Aeroplan Inc. (“Aeroplan”), Touram Limited Partnership doing business under the brand name Air Canada Vacations® (“Air Canada Vacations”), and Air Canada Rouge LP doing business under the brand name Air Canada Rouge® (“Air Canada Rouge”).

Air Canada is incorporated and domiciled in Canada. The address of its registered office is 7373 Côte-Vertu Boulevard West, Saint-Laurent, Quebec.

The Corporation has historically experienced greater demand for its services in the second and third quarters of the calendar year, primarily due to the high number of leisure travellers and their preference for travel during the spring and summer months. The financial results for the nine months ended September 30, 2022 are not necessarily indicative of financial results for the entire year due to several factors, including the impact of the COVID-19 pandemic and the extent and timing of the recovery, seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, geopolitical, health, economic and other factors.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements 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”). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 “Interim Financial Reporting”. In accordance with GAAP, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation’s annual consolidated financial statements for the year ended December 31, 2021. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

Recent business developments, which impacted the financial results reported for 2022, include an amended agreement between Air Canada and a third-party maintenance provider. In connection with this, a favourable adjustment of \$159 million was recorded in the first quarter of 2022 in Aircraft maintenance expense arising from the adjustment to maintenance accruals and the recognition of future credits that will be available under the amended agreement. Given the significantly reduced aircraft operations and fleet reductions during the COVID-19 pandemic, this agreement was amended by the parties to convert the nature of the services from a power-by-the-hour basis to a time and materials contract and to reduce the number of items covered under the agreement. Until the contract amendment was completed, cost accruals continued on the previous contract basis.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2021 annual consolidated financial statements except for the presentation of Restricted cash described below.

### IAS 7 Statement of Cash Flows

In 2022, the IFRS Interpretations Committee finalized its decision that restrictions on the use of demand deposits arising from a contract with a third party do not preclude those deposits from being cash and cash equivalents when they are available to the company on demand. Therefore, they should be included in cash and cash equivalents in the statements of cash flows and financial position, with disclosure provided on significant cash and cash equivalents balances with restrictions on use.

Previously, the Corporation recorded Restricted cash under current assets representing funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. While these funds are in trust pursuant to the applicable regulations, the Corporation may access these funds as services are rendered or as disbursements are made on behalf of the customer. As a result of this guidance on application of IAS 7 Statement of Cash Flows, the Corporation has reclassified these amounts to Cash and cash equivalents with the 2021 comparative figures also reclassified. Cash and cash equivalents include \$231 million related to these funds at September 30, 2022 (\$167 million at December 31, 2021).

These financial statements were approved for issue by the Board of Directors of the Corporation on October 27, 2022.



### 3. SPECIAL ITEMS

Special items are those items that in management's view are to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Corporation's financial performance.

Special items recorded within operating expenses consist of the following:

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Impairments	\$ -	\$ (12)	\$ 4	\$ 14
Government wage subsidy, net	-	(103)	-	(424)
Workforce reduction provisions	-	4	-	163
Benefit plan amendments	-	8	-	76
Other	-	-	-	14
<b>Special items</b>	<b>\$ -</b>	<b>\$ (103)</b>	<b>\$ 4</b>	<b>\$ (157)</b>

#### Impairments

In the first nine months of 2021, an impairment charge of \$14 million was recorded as a result of reductions to the estimates around the expected disposal proceeds on owned aircraft, partially offset by lower-than-expected costs to meet contractual return conditions on lease returns. An impairment charge of \$4 million was recorded in the first nine months of 2022 related to the return of leased aircraft. Further changes to these estimates may result in additional adjustments to the impairment charge in future periods.

#### Government wage subsidy

For information on the Corporation's participation in the Canada Emergency Wage Subsidy ("CEWS") program, refer to Note 4 of the 2021 annual consolidated financial statements.

No wage subsidy was recorded in the first nine months of 2022 as the Corporation no longer qualified under the amended/new programs (gross subsidy of \$103 million in the third quarter of 2021; \$103 million net of costs; gross subsidy of \$429 million for the nine months ended September 30, 2021; \$424 million net of costs;). Cash payments of \$113 million were received in the third quarter of 2021 (\$415 million for the nine months ended September 30, 2021).

#### Workforce reduction provisions

As a result of the COVID-19 pandemic and to mitigate the number of employees who were on layoff status, during the second quarter of 2021, Air Canada offered early retirement incentive programs to its unionized workforce. These programs provided for pension improvements which were payable from the defined benefit pension plan for eligible employees, and as such did not impact the Corporation's liquidity position. Termination benefits and a curtailment loss of \$163 million were recorded for the nine-month period ended September 30, 2021 as a special item.

#### Benefit plan amendments

In April 2021, Air Canada received the decision of the arbitrator determining the cap on pensionable earnings recognized in the defined benefit pension plan for IAMAW-represented technical employees. The decision resulted in an increase to the maximum pensionable earnings, effective from 2021, with retroactivity to 2019 for employees that so elected. The Corporation recorded a one-time pension past service cost of \$76 million as a special item for the nine months ended September 30, 2021 as a result of this plan amendment. An additional \$6 million was recorded in the fourth quarter of 2021 as a special item. This amendment did not impact the Corporation's liquidity position as it is funded out of the surplus in the domestic registered pension plans.

#### Other

##### Termination of the Transat Arrangement Agreement

In April 2021, Air Canada announced that the arrangement agreement for the proposed acquisition by Air Canada of Transat A.T. Inc ("Transat") was terminated, including the payment of a \$12.5 million termination fee to Transat. The termination fee was recorded as a Special item during the first quarter of 2021.



Amendments to Capacity Purchase Agreements

In March 2021, Air Canada announced an agreement to amend the Capacity Purchase Agreement (“CPA”) with Jazz Aviation LP, a wholly-owned subsidiary of Chorus Aviation Inc., under which Jazz currently operates regional flights under the Air Canada Express brand. Through the revised agreement, Air Canada transferred the operation of its Embraer E175 fleet to Jazz from Sky Regional and Jazz became the sole operator of flights under the Air Canada Express brand. The capacity purchase agreement with Sky Regional was terminated. The Corporation recorded a net expense of \$2 million, related to the CPA revisions and consolidation of regional flying.

#### 4. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	September 30, 2022 (Canadian dollars in millions)	December 31, 2021 (Canadian dollars in millions)
<b>Aircraft financing</b>				
Fixed rate U.S. dollar financing	2023 – 2030	4.92	\$ 3,570	\$ 3,471
Floating rate U.S. dollar financing	2026 – 2027	5.22	419	427
Fixed rate CDN dollar financing	2026 – 2030	3.78	194	206
Floating rate CDN dollar financing	2026 – 2033	5.57	1,277	1,169
Fixed rate Japanese yen financing	2027	1.84	112	129
Floating rate Japanese yen financing			-	2
Convertible notes	2025	4.00	620	723
Credit facility – CDN dollar	2028	1.21	1,045	1,018
Senior secured notes – CDN dollar	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar	2026	3.88	1,660	1,516
Senior secured credit facility – U.S. dollar	2028	6.42	3,173	2,907
<b>Long-term debt</b>		<b>4.81</b>	<b>14,070</b>	<b>13,568</b>
<b>Lease liabilities</b>				
Air Canada aircraft	2022 – 2031	5.01	1,786	1,792
Regional aircraft	2023 – 2035	5.97	981	981
Land and buildings	2022 – 2078	5.29	389	406
<b>Lease liabilities</b>		<b>5.34</b>	<b>3,156</b>	<b>3,179</b>
<b>Total debt and lease liabilities</b>		<b>4.90</b>	<b>17,226</b>	<b>16,747</b>
<b>Unamortized debt issuance costs and discounts</b>				
Unamortized debt issuance costs and discounts			(191)	(224)
Current portion – Long-term debt			(679)	(511)
Current portion – Air Canada aircraft			(344)	(310)
Current portion – Regional aircraft			(189)	(166)
Current portion – Land and buildings			(24)	(25)
<b>Long-term debt and lease liabilities</b>			<b>\$ 15,799</b>	<b>\$ 15,511</b>

The above table provides terms of instruments disclosed in Note 10 to the 2021 annual consolidated financial statements of the Corporation as well as updates for financings concluded during the nine months ended September 30, 2022 and described below.

In September 2022, the Corporation repurchased \$273 million (US\$207 million) aggregate principal amount of its outstanding 4% Convertible Senior Notes due 2025 (the "Notes") for an aggregate cash repurchase price of \$329 million (US\$249 million), including accrued interest. Following this, \$747 million (US\$540 million) aggregate principal amount of Notes remains outstanding. The Corporation recorded a \$17 million gain on debt settlement related to this repurchase.

In the first nine months of 2022, Air Canada drew on financing for five additional Airbus A220 aircraft under the secured facility described in Note 10(a) to its 2021 annual consolidated financial statements and the amount of such draw is included in Aircraft financing in the above table. Financing remains available for an additional two Airbus A220 aircraft under this facility.

In February 2021, the Corporation extended its US\$600 million revolving credit facility by one year to April 2024 and increased the interest rate by 75 basis points, to an interest rate margin of 250 basis points over LIBOR. The Corporation had also extended its \$200 million revolving credit facility by one year to December 2023 and increased the interest rate by 25 basis points, to an interest rate margin of 275 basis points over banker's acceptance rates. The Corporation recorded a \$19 million loss on debt modification related to this in the first quarter of 2021. In connection with debt financing and repayment transactions completed in August 2021 and that are described in Note 10(d) to the 2021 annual consolidated financial statements of the Corporation, a \$110 million loss on debt settlements related to

the repayments was recorded in the third quarter of 2021. The US\$600 million revolving credit facility and the \$200 million revolving credit facility were repaid in August 2021. Following subsequent agreements that occurred in 2021, the US\$600 million revolving credit facility matures in 2025 and the \$200 million revolving credit facility matures in 2024.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Interest on debt	\$ 197	\$ 154	\$ 543	\$ 406
Interest on lease liabilities				
Air Canada aircraft	22	22	63	69
Regional aircraft	14	15	42	47
Land and buildings	6	6	16	16
<b>Interest expense</b>	<b>\$ 239</b>	<b>\$ 197</b>	<b>\$ 664</b>	<b>\$ 538</b>

The consolidated statement of operations includes the following amounts related to leases which have not been recorded as right-of-use assets and lease liabilities.

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Short-term leases	\$ 4	\$ 3	\$ 13	\$ 4
Variable lease payments not included in lease liabilities	10	6	28	20
<b>Expense related to leases (included in Other operating expenses)</b>	<b>\$ 14</b>	<b>\$ 9</b>	<b>\$ 41</b>	<b>\$ 24</b>

Total cash outflows for payments on lease liabilities was \$166 million for the three months ended September 30, 2022 (\$495 million for the nine months ended September 30, 2022; \$181 million and \$554 million respectively for the three- and nine-month periods ended September 30, 2021), of which \$125 million was for principal repayments (\$375 million for the nine months ended September 30, 2022; \$138 million and \$422 million for the three- and nine-month periods ended September 30, 2021).

**Maturity Analysis**

Principal and interest repayment requirements as at September 30, 2022 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the September 30, 2022 closing rate of CDN\$1.3829.

<b>Principal</b> (Canadian dollars in millions)	<b>Remainder of 2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt obligations <sup>(1)</sup>	\$ 163	\$ 725	\$ 532	\$ 1,666	\$ 2,596	\$ 8,743	\$ 14,425
Air Canada aircraft	89	339	330	314	261	453	1,786
Regional aircraft	50	186	156	141	52	396	981
Land and buildings	6	23	24	24	23	289	389
Lease liabilities	\$ 145	\$ 548	\$ 510	\$ 479	\$ 336	\$ 1,138	\$ 3,156
<b>Total long-term debt and lease liabilities</b>	<b>\$ 308</b>	<b>\$ 1,273</b>	<b>\$ 1,042</b>	<b>\$ 2,145</b>	<b>\$ 2,932</b>	<b>\$ 9,881</b>	<b>\$ 17,581</b>

<b>Interest</b> (Canadian dollars in millions)	<b>Remainder of 2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt obligations <sup>(1)</sup>	\$ 127	\$ 666	\$ 636	\$ 602	\$ 520	\$ 883	\$ 3,434
Air Canada aircraft	23	80	64	48	34	39	288
Regional aircraft	14	48	37	27	21	93	240
Land and buildings	5	19	18	17	16	193	268
Lease liabilities	\$ 42	\$ 147	\$ 119	\$ 92	\$ 71	\$ 325	\$ 796
<b>Total long-term debt and lease liabilities</b>	<b>\$ 169</b>	<b>\$ 813</b>	<b>\$ 755</b>	<b>\$ 694</b>	<b>\$ 591</b>	<b>\$ 1,208</b>	<b>\$ 4,230</b>

*(1) Assumes the principal balance of the convertible notes, \$747 million (US\$540 million) remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility accessed in 2021 to support customers refunds of non-refundable tickets is included.*

Principal repayments in the table above exclude discounts and transaction costs of \$191 million, which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.

**Cash Flows from financing activities**

Information on the change in liabilities for which cash flows have been classified as financing activities in the statement of cash flows is presented below.

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Sept. 30, 2022
	Jun. 30, 2022	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 13,680	\$ 41	\$ (448)	\$ -	\$ 671	\$ 126	\$ -	\$ 14,070
Air Canada aircraft	1,740	-	(77)	-	123	-	-	1,786
Regional aircraft	955	-	(42)	-	68	-	-	981
Land and buildings	394	-	(6)	-	1	-	-	389
Lease liabilities	3,089	-	(125)	-	192	-	-	3,156
Unamortized debt issuance costs	(205)	-	-	(4)	-	18	-	(191)
<b>Total liabilities from financing activities</b>	<b>\$ 16,564</b>	<b>\$ 41</b>	<b>\$ (573)</b>	<b>\$ (4)</b>	<b>\$ 863</b>	<b>\$ 144</b>	<b>\$ -</b>	<b>\$ 17,035</b>

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Sept. 30, 2022
	Dec. 31, 2021	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 13,568	\$ 202	\$ (699)	\$ -	\$ 824	\$ 175	\$ -	\$ 14,070
Air Canada aircraft	1,792	-	(230)	-	158	-	66	1,786
Regional aircraft	981	-	(127)	-	86	-	41	981
Land and buildings	406	-	(18)	-	-	-	1	389
Lease liabilities	3,179	-	(375)	-	244	-	108	3,156
Unamortized debt issuance costs	(224)	-	-	(5)	-	38	-	(191)
<b>Total liabilities from financing activities</b>	<b>\$ 16,523</b>	<b>\$ 202</b>	<b>\$ (1,074)</b>	<b>\$ (5)</b>	<b>\$ 1,068</b>	<b>\$ 213</b>	<b>\$ 108</b>	<b>\$ 17,035</b>

## 5. INCOME TAXES

### Income Tax Recovery (Expense)

Income tax recorded in the consolidated statement of operations is presented below.

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Current income tax (expense) recovery	\$ (18)	\$ (6)	\$ (42)	\$ (9)
Deferred income tax (expense) recovery	14	45	(156)	264
<b>Income tax recovery (expense)</b>	<b>\$ (4)</b>	<b>\$ 39</b>	<b>\$ (198)</b>	<b>\$ 255</b>

The Corporation's statutory tax rate for the nine months ended September 30, 2022 was 26.46% (26.47% for the nine months ended September 30, 2021).

Income tax recorded in the consolidated statement of comprehensive loss is presented below.

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Remeasurements on employee benefit liabilities				
- current income tax (expense) recovery	\$ 13	\$ (23)	\$ 10	\$ (30)
- deferred income tax (expense) recovery	(12)	(42)	166	(252)
<b>Income tax recovery (expense)</b>	<b>\$ 1</b>	<b>\$ (65)</b>	<b>\$ 176</b>	<b>\$ (282)</b>

## 6. SHARE CAPITAL

The issued and outstanding shares of Air Canada, along with the potential shares, were as follows:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
<b>Issued and outstanding</b>		
Class A variable voting shares	63,799,071	82,897,507
Class B voting shares	294,346,070	274,944,350
<b>Total issued and outstanding</b>	<b>358,145,141</b>	<b>357,841,857</b>
<b>Potential shares</b>		
Convertible notes	35,185,616	48,687,441
Warrants	-	7,288,282
Stock options	5,463,268	4,330,993
<b>Total outstanding and potentially issuable shares</b>	<b>398,794,025</b>	<b>418,148,573</b>

In April 2021, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada, which included the issuance of shares and warrants. Air Canada issued 21,570,942 shares to the Government of Canada for net proceeds of \$480 million. In November 2021, Air Canada withdrew from Government of Canada financial support and exercised its call right to purchase and cancel the 7,288,282 vested warrants at fair market value of \$82 million, with settlement completed in January 2022.

As described in Note 4, in September 2022, the Corporation repurchased and cancelled \$273 million (US\$207 million) aggregate principal amount of its convertible notes. The conversion rate of the convertible notes is 65.1337 shares per US\$1,000 principal amount of convertible notes, thereby reducing the potentially issuable shares.



## 7. LOSS PER SHARE

The following table outlines the calculation of basic and diluted loss per share.

(in millions, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Numerator:</b>				
<b>Net loss for the period:</b>	\$ (508)	\$ (640)	\$ (1,868)	\$ (3,109)
Effect of assumed conversion of convertible notes	89	(54)	(36)	184
Effect of assumed conversion of warrants	-	(16)	-	(25)
Remove anti-dilutive impact	(89)	70	36	(184)
<b>Adjusted numerator for diluted loss per share</b>	<b>(508)</b>	<b>(640)</b>	<b>(1,868)</b>	<b>(3,134)</b>
<b>Denominator:</b>				
<b>Weighted-average shares</b>	<b>358</b>	<b>358</b>	<b>358</b>	<b>349</b>
Effect of potential dilutive securities:				
Stock options	-	1	-	1
Convertible notes	46	49	48	49
Warrants	-	-	-	-
Remove anti-dilutive impact	(46)	(50)	(48)	(50)
<b>Adjusted denominator for diluted loss per share</b>	<b>358</b>	<b>358</b>	<b>358</b>	<b>349</b>
<b>Basic loss per share</b>	<b>\$ (1.42)</b>	<b>\$ (1.79)</b>	<b>\$ (5.22)</b>	<b>\$ (8.90)</b>
<b>Diluted loss per share</b>	<b>\$ (1.42)</b>	<b>\$ (1.79)</b>	<b>\$ (5.22)</b>	<b>\$ (8.97)</b>

The calculation of loss per share is based on whole numbers and not on rounded millions. As a result, the above amounts may not be recalculated to the per share amount disclosed above.

## 8. COMMITMENTS

### Capital Commitments

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. 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, 2022. U.S. dollar amounts are converted using the September 30, 2022 closing rate of CDN\$1.3829. Minimum future commitments under these contractual arrangements are shown below. They include the acquisition of 30 Airbus A321XLR aircraft, which Air Canada announced in 2022. Deliveries are scheduled to begin in 2024 with the final aircraft to arrive in 2027. The acquisitions include 20 aircraft leased with lessors and 10 to be purchased under an agreement with Airbus S.A.S. The amounts related to the periodic lease payments on the 20 leases is included for the periods noted. Also finalized in 2022 and included below, is the purchase of two new Boeing 777 freighter aircraft with deliveries expected in 2024 and the exercise of options to purchase 15 additional Airbus A220 aircraft with deliveries scheduled in 2026.

(Canadian dollars in millions)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Capital commitments	\$ 378	\$ 1,115	\$ 1,182	\$ 882	\$ 1,460	\$ 2,601	<b>\$ 7,618</b>

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

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 18 to the 2021 annual consolidated financial statements for information on the Corporation's risk management strategy.

### Summary of financial instruments recorded at fair value

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Embedded derivative on convertible notes	\$ (22)	\$ 101	\$ 174	\$ (109)
Short-term investments	(3)	(2)	(84)	(31)
Warrants	-	16	-	25
Share forward contracts	-	(1)	(1)	1
<b>Gain (loss) on financial instruments recorded at fair value</b>	<b>\$ (25)</b>	<b>\$ 114</b>	<b>\$ 89</b>	<b>\$ (114)</b>

### Liquidity Risk Management

The Corporation manages its liquidity needs through a variety of strategies including by seeking to sustain and improve cash from operations, sourcing committed financing for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations. The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. At September 30, 2022, total liquidity was \$10,236 million comprised of Cash and cash equivalents, Short-term and Long-term investments of \$9,206 million, and \$1,030 million available under undrawn credit facilities. This includes \$231 million for funds held by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.

### Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at September 30, 2022, as further described below, approximately 62% of net U.S. cash outflows are hedged for the remainder of 2022, 64% for 2023 and 34% for 2024, resulting in derivative coverage of 58% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage over the next 18 months.

As at September 30, 2022, the Corporation had outstanding foreign currency options and swap agreements, settling in 2022, 2023 and 2024, to purchase at maturity \$4,240 million (US\$3,081 million) of U.S. dollars at a weighted average rate of \$1.2962 per US\$1.00 (as at December 31, 2021 – \$2,423 million (US\$1,925 million) with settlements in 2022 and 2023 at a weighted average rate of \$1.2742 per \$1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €149 million, GBP £87 million, JPY ¥10,718 million, and AUD \$101 million) which settle in 2022, 2023 and 2024 at weighted average rates of €1.0656, £1.1840, ¥0.0083, and \$0.7239 per \$1.00 U.S. dollar respectively (as at December 31, 2021 - EUR €260 million, GBP £56 million, JPY ¥4,577 million, CNH ¥31 million and AUD \$36 million with settlement in 2022 and 2023 at weighted average rates of €1.1704, £1.4125, ¥0.0092, ¥0.1471, and \$0.7300 respectively per \$1.00 U.S. dollar).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at September 30, 2022 was \$186 million in favour of the counterparties (as at December 31, 2021 – \$268 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During the third quarter of 2022, foreign exchange gain (loss) related to these derivatives was \$36 million loss (\$102 million gain for the nine-month period ended September 30, 2022; \$87 million gain and \$106 million loss respectively for the three- and nine-month periods ended September 30, 2021). In the third quarter of 2022, foreign exchange derivative contracts cash settled with a net fair value of \$24 million in favour of the Corporation (\$20 million in favour of the Corporation for the nine-month period ended September 30, 2022; \$91 million and \$389 million in favour of the counterparties respectively for the three- and nine-month periods ended September 30, 2021).

The Corporation also holds U.S. cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash and short-term investment balances as at September 30, 2022 amounted to \$683 million (US\$499 million) (\$1,403 million (US\$1,110 million) as at December 31, 2021). During the three months ended September 30, 2022, a gain of \$47 million (\$77 million gain for the nine-month period ended September 30, 2022; \$62 million gain and \$18 million gain respectively for the three- and nine-month periods ended September 30, 2021) was recorded in foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short-term and long-term investment balances held.

### Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments. Cash equivalents and Short and Long-term investments are classified as held for trading and therefore are recorded at fair value.

The carrying amounts of derivatives are equal to their fair value, which is based on the amount at which they could be settled based on estimated market rates at September 30, 2022.

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Corporation based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt is \$12,890 million compared to its carrying value of \$14,070 million.

The following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. There are no changes in classifications or methods of measuring fair value from those disclosed in Note 18 to the 2021 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the nine months ended September 30, 2022.

(Canadian dollars in millions)	September 30, 2022	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Financial Assets</b>				
Held-for-trading securities				
Cash equivalents	\$ 267	\$ -	\$ 267	\$ -
Short-term investments	5,844	-	5,844	-
Long-term investments	716	-	716	-
Equity investment in Chorus	37	37	-	-
Derivative instruments				
Share forward contracts	5	-	5	-
Foreign exchange derivatives	65	-	65	-
<b>Total</b>	<b>\$ 6,934</b>	<b>\$ 37</b>	<b>\$ 6,897</b>	<b>\$ -</b>
<b>Financial Liabilities</b>				
Derivative instruments				
Foreign exchange derivatives	251	-	251	-
Embedded derivative on convertible notes	278	-	278	-
<b>Total</b>	<b>\$ 529</b>	<b>\$ -</b>	<b>\$ 529</b>	<b>\$ -</b>

Financial assets held by financial institutions in the form of cash have been excluded from the fair value measurement classification table above as they are not valued using a valuation technique.

## 10. GEOGRAPHIC INFORMATION

A reconciliation of the total amounts reported by geographic region for Passenger revenues and Cargo revenues on the consolidated statement of operations is as follows:

<b>Passenger Revenues</b> (Canadian dollars in millions)	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Canada	\$ 1,466	\$ 771	\$ 3,229	\$ 1,276
U.S. Transborder	915	291	2,101	352
Atlantic	1,770	384	3,285	546
Pacific	382	112	706	163
Other	285	78	855	120
	<b>\$ 4,818</b>	<b>\$ 1,636</b>	<b>\$ 10,176</b>	<b>\$ 2,457</b>

<b>Cargo Revenues</b> (Canadian dollars in millions)	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Canada	\$ 26	\$ 30	\$ 84	\$ 79
U.S. Transborder	15	16	38	44
Atlantic	141	124	411	387
Pacific	70	168	343	426
Other	29	28	102	69
	<b>\$ 281</b>	<b>\$ 366</b>	<b>\$ 978</b>	<b>\$ 1,005</b>

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic revenues refer to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific revenues refer to flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia. Other passenger and cargo revenues refer to flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.