



Third Quarter 2023

INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes



October 30, 2023

 **AIR CANADA**

A STAR ALLIANCE MEMBER 

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)	September 30, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents	\$ 2,460	\$ 2,693
Short-term investments	5,832	5,295
Total cash, cash equivalents and short-term investments	8,292	7,988
Accounts receivable	1,195	1,037
Aircraft fuel inventory	167	200
Spare parts and supplies inventory	153	118
Prepaid expenses and other current assets Note 6	568	322
Total current assets	10,375	9,665
Investments, deposits and other assets	888	1,073
Property and equipment	11,768	11,950
Pension assets	2,270	2,444
Deferred income tax	52	48
Intangible assets	1,071	1,054
Goodwill	3,273	3,273
Total assets	\$ 29,697	\$ 29,507
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,441	\$ 2,691
Advance ticket sales	4,528	4,104
Aeroplan and other deferred revenue	1,404	1,295
Current portion of long-term debt and lease liabilities Note 3	959	1,263
Total current liabilities	9,332	9,353
Long-term debt and lease liabilities Note 3	13,413	15,043
Aeroplan and other deferred revenue	3,022	3,160
Pension and other benefit liabilities	1,661	1,770
Maintenance provisions	1,374	1,352
Other long-term liabilities	272	311
Deferred income tax	73	73
Total liabilities	\$ 29,147	\$ 31,062
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	2,744	2,743
Contributed surplus	130	118
Accumulated other comprehensive loss	(60)	(46)
Deficit	(2,264)	(4,370)
Total shareholders' equity (deficiency)	550	(1,555)
Total liabilities and shareholders' equity (deficiency)	\$ 29,697	\$ 29,507

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		
	2023	2022 Restated Note 2	2023	2022 Restated Note 2	
Operating revenues					
Passenger	Note 8	\$ 5,861	\$ 4,818	\$ 14,850	\$ 10,176
Cargo	Note 8	215	281	680	978
Other		268	223	1,128	722
Total revenues		6,344	5,322	16,658	11,876
Operating expenses					
Aircraft fuel		1,365	1,617	3,927	3,817
Wages, salaries and benefits		995	850	2,880	2,368
Depreciation, amortization, and impairment		415	413	1,261	1,227
Airport and navigation fees		392	366	1,068	893
Sales and distribution costs		307	250	844	569
Capacity purchase fees		218	194	635	549
Aircraft maintenance	Note 2	236	205	772	458
Ground package costs		99	80	543	311
Communications and information technology		141	115	415	341
Catering and onboard services		181	127	467	298
Other		580	461	1,646	1,204
Total operating expenses		4,929	4,678	14,458	12,035
Operating income (loss)		1,415	644	2,200	(159)
Non-operating income (expense)					
Foreign exchange gain (loss)		(61)	(951)	317	(1,048)
Interest income		118	46	307	97
Interest expense	Note 3	(236)	(239)	(722)	(664)
Interest capitalized		(2)	3	9	8
Financial instruments recorded at fair value	Note 7	101	(25)	24	89
Gain (loss) on debt settlement	Note 3	(7)	17	(9)	17
Other		(11)	1	(36)	(10)
Total non-operating expense		(98)	(1,148)	(110)	(1,511)
Income (loss) before income taxes		1,317	(504)	2,090	(1,670)
Income tax recovery (expense)	Note 4	(67)	(4)	2	(198)
Net income (loss) for the period		\$ 1,250	\$ (508)	\$ 2,092	\$ (1,868)
Net income (loss) per share	Note 5				
Basic earnings (loss) per share		\$ 3.49	\$ (1.42)	\$ 5.84	\$ (5.22)
Diluted earnings (loss) per share		\$ 3.08	\$ (1.42)	\$ 5.55	\$ (5.22)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Comprehensive income (loss)				
Net income (loss) for the period	\$ 1,250	\$ (508)	\$ 2,092	\$ (1,868)
Other comprehensive income (loss), net of tax expense: Note 4				
Items that will not be reclassified to net income				
Remeasurements on net employee benefits	(114)	43	14	(75)
Remeasurements on equity investments	(11)	(14)	(14)	(15)
Items that will be reclassified to net income				
Fuel derivatives designated as cash flow hedges	3	-	-	-
Total comprehensive income (loss)	\$ 1,128	\$ (479)	\$ 2,092	\$ (1,958)

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, 2022	\$ 2,735	\$ 104	\$ (45)	\$ (2,785)	\$ 9
Net income (loss)	-	-	-	(1,868)	(1,868)
Remeasurements on net employee benefits	-	-	-	(75)	(75)
Remeasurements on equity investments	-	-	(15)	-	(15)
Total comprehensive income (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)
January 1, 2023	\$ 2,743	\$ 118	\$ (46)	\$ (4,370)	\$ (1,555)
Net income	-	-	-	2,092	2,092
Remeasurements on net employee benefits	-	-	-	14	14
Remeasurements on equity investments	-	-	(14)	-	(14)
Total comprehensive income (loss)	-	-	(14)	2,106	2,092
Share-based compensation	-	12	-	-	12
Shares issued	1	-	-	-	1
September 30, 2023	\$ 2,744	\$ 130	\$ (60)	\$ (2,264)	\$ 550

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	
	2023	2022	2023	2022
Cash flows from (used in)				
Operating				
Net income (loss) for the period	\$ 1,250	\$ (508)	\$ 2,092	\$ (1,868)
Adjustments to reconcile to net cash from operations				
Deferred income tax	Note 4	73	(14)	10
Depreciation, amortization, and impairment		415	413	1,261
Foreign exchange (gain) loss		95	961	(206)
Employee benefit funding less than expense		11	22	46
Financial instruments recorded at fair value	Note 7	(79)	25	(24)
(Gain) loss on debt settlements	Note 3	7	(17)	9
Change in maintenance provisions		55	39	30
Changes in non-cash working capital balances		(1,368)	(614)	188
Other		(51)	(17)	(71)
Net cash flows from operating activities		408	290	3,335
Financing				
Proceeds from borrowings	Note 3	-	41	84
Repayment of long-term debt and lease liabilities	Note 3	(808)	(573)	(2,120)
Issue of shares		-	2	1
Financing fees	Note 3	(1)	(4)	(1)
Net cash flows used in financing activities		(809)	(534)	(2,036)
Investing				
Investments, short-term and long-term		206	276	(283)
Additions to property, equipment and intangible assets		(273)	(333)	(1,248)
Proceeds from sale of assets		4	4	7
Other		(8)	(3)	(14)
Net cash flows used in investing activities		(71)	(56)	(1,538)
Effect of exchange rate changes on cash and cash equivalents		6	-	6
Decrease in cash and cash equivalents		(466)	(300)	(233)
Cash and cash equivalents, beginning of period		2,926	2,946	2,693
Cash and cash equivalents, end of period		\$ 2,460	\$ 2,646	\$ 2,460
Cash payments of interest	Note 3	\$ 255	\$ 235	\$ 697
Cash payments (recoveries) of income taxes		\$ 2	\$ (4)	\$ 51

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, 2023 are not necessarily indicative of financial results for the entire year.

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, 2022. 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.

These financial statements were approved for issue by the Board of Directors of the Corporation on October 29, 2023.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2022 annual consolidated financial statements.

Reclassification of certain operating expenses – 2022 comparative figures

Prior to the fourth quarter of 2022, operating expenses under capacity purchase agreements were aggregated in a separate line item in the consolidated statement of operations titled Regional airlines expense, and included the capacity purchase fees, pass-through costs, and other costs incurred by Air Canada which were directly related to regional carrier operations, excluding fuel. For the year ended December 31, 2022, these costs are no longer allocated to regional airline expense on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item and continue to exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. Refer to Note 2D and Note 2AA to the 2022 annual consolidated financial statements for additional details.

The tables below present the operating expenses for the three- and nine-month periods ended September 30, 2022 as previously reported and on this reclassified basis.

(Canadian dollars in millions)	For the three months ended September 30, 2022 as previously reported	Reclassification for Regional airlines expense	For the three months ended September 30, 2022 as restated
Operating expenses			
Aircraft fuel	\$ 1,617	\$ -	\$ 1,617
Wages, salaries and benefits	816	34	850
Depreciation, amortization and impairment	413	-	413
Regional airlines expense, excluding fuel	400	(400)	-
Airport and navigation fees	299	67	366
Sales and distribution costs	217	33	250
Capacity purchase fees	-	194	194
Aircraft maintenance	193	12	205
Ground package costs	80	-	80
Communications and information technology	112	3	115
Catering and onboard services	120	7	127
Other	411	50	461
Total operating expenses	\$ 4,678	\$ -	\$ 4,678

(Canadian dollars in millions)	For the nine months ended September 30, 2022 as previously reported	Reclassification for Regional airlines expense	For the nine months ended September 30, 2022 as restated
Operating expenses			
Aircraft fuel	\$ 3,817	\$ -	\$ 3,817
Wages, salaries and benefits	2,272	96	2,368
Depreciation, amortization and impairment	1,227	-	1,227
Regional airlines expense, excluding fuel	1,083	(1,083)	-
Airport and navigation fees	723	170	893
Sales and distribution costs	496	73	569
Capacity purchase fees	-	549	549
Aircraft maintenance	414	44	458
Ground package costs	311	-	311
Communications and information technology	331	10	341
Catering and onboard services	278	20	298
Other	1,083	121	1,204
Total operating expenses	\$ 12,035	\$ -	\$ 12,035

Aircraft maintenance

In connection with an amended agreement between Air Canada and a third-party service provider concluded in 2022, 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.

3. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	September 30, 2023 (Canadian dollars in millions)	December 31, 2022 (Canadian dollars in millions)
Aircraft financing				
Fixed rate U.S. dollar financing	2023 – 2030	5.00	\$ 3,090	\$ 3,408
Floating rate U.S. dollar financing	2026 – 2027	7.86	313	399
Fixed rate CDN dollar financing	2026 – 2030	3.78	173	182
Floating rate CDN dollar financing	2027	6.15	37	1,240
Fixed rate Japanese yen financing	2027	1.84	107	121
Convertible notes	2025	4.00	331	313
Credit facility – CDN dollar	2028	1.21	1,082	1,054
Senior secured notes – CDN dollar	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar	2026	3.88	1,629	1,626
Senior secured credit facility – U.S. dollar	2028	9.13	3,084	3,102
Long-term debt		5.52	11,846	13,445
Lease liabilities				
Air Canada aircraft	2023 – 2031	5.11	1,457	1,667
Regional aircraft	2025 – 2035	5.73	764	917
Land and buildings	2024 – 2078	5.45	446	454
Lease liabilities		5.34	2,667	3,038
Total debt and lease liabilities		5.48	14,513	16,483
Unamortized debt issuance costs and discounts			(141)	(177)
Current portion – Long-term debt			(441)	(713)
Current portion – Air Canada aircraft			(347)	(337)
Current portion – Regional aircraft			(146)	(187)
Current portion – Land and buildings			(25)	(26)
Long-term debt and lease liabilities			\$ 13,413	\$ 15,043

The above table provides terms of instruments disclosed in Note 9 to the 2022 annual consolidated financial statements of the Corporation as well as borrowings concluded during the nine months ended September 30, 2023 and described below.

In the first quarter of 2023, Air Canada drew on financing for the final two Airbus A220 aircraft under the secured facility described in Note 9(a) to its 2022 annual consolidated financial statements. The financing on these two aircraft was prepaid in June 2023 as described below.

In the second quarter of 2023, the Corporation prepaid loans of \$650 million which had been used to finance the acquisition of 19 Airbus A220-300 aircraft. A loss of \$2 million was recorded on debt settlement.

In the third quarter of 2023, the Corporation prepaid loans of \$462 million previously used to fund its acquisition of 14 Airbus A220-300 aircraft. In addition, financing of \$127 million previously used to fund the acquisition of four Boeing 787-8 aircraft was also prepaid. A loss of \$7 million was recorded on these debt settlements.

As a result of the prepayments, these aircraft have been added to the Corporation's unencumbered asset pool.

In the third quarter of 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. The Corporation recorded a \$17 million gain on debt settlement related to this repurchase.

Under Interbank Offered Rate (“IBOR”) reform, IBORs are replaced with alternative benchmark rates. As at September 30, 2023, debt and aircraft leases referencing \$2,502 million USD LIBOR were transitioned to term SOFR (Secured Overnight Financing Rate). There was no significant impact to the financial statements as the change in contractual cash flows was on an economically equivalent basis, and therefore the change is accounted for by updating the effective interest rate with no gain or loss recognized.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Interest on debt	\$ 199	\$ 197	\$ 606	\$ 543
Interest on lease liabilities				
Air Canada aircraft	21	22	64	63
Regional aircraft	11	14	35	42
Land and buildings	5	6	17	16
Interest expense	\$ 236	\$ 239	\$ 722	\$ 664

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	
	2023	2022	2023	2022
Short-term leases	\$ 11	\$ 4	\$ 21	\$ 13
Variable lease payments not included in lease liabilities	10	10	31	28
Expense related to leases (included in Other operating expenses)	\$ 21	\$ 14	\$ 52	\$ 41

Total cash outflows for payments on lease liabilities was \$164 million for the three months ended September 30, 2023 (\$514 million for the nine months ended September 30, 2023; \$166 million and \$495 million respectively for the three- and nine-month periods ended September 30, 2022), of which \$127 million was for principal repayments (\$398 million for the nine months ended September 30, 2023; \$125 million and \$375 million for the three and nine-month periods ended September 30, 2022).

Maturity Analysis

Principal and interest repayment requirements as at September 30, 2023 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the September 30, 2023 closing rate of CDN\$1.3577.

Principal (Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 171	\$ 378	\$ 1,129	\$ 2,405	\$ 1,054	\$ 6,941	\$ 12,078
Air Canada aircraft	90	339	325	258	208	237	1,457
Regional aircraft	38	144	142	51	41	348	764
Land and buildings	6	26	26	26	26	336	446
Lease liabilities	\$ 134	\$ 509	\$ 493	\$ 335	\$ 275	\$ 921	\$ 2,667
Total long-term debt and lease liabilities	\$ 305	\$ 887	\$ 1,622	\$ 2,740	\$ 1,329	\$ 7,862	\$ 14,745

Interest (Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 123	\$ 645	\$ 617	\$ 557	\$ 459	\$ 448	\$ 2,849
Air Canada aircraft	20	69	53	37	25	22	226
Regional aircraft	10	36	27	21	18	73	185
Land and buildings	6	23	21	20	19	237	326
Lease liabilities	\$ 36	\$ 128	\$ 101	\$ 78	\$ 62	\$ 332	\$ 737
Total long-term debt and lease liabilities	\$ 159	\$ 773	\$ 718	\$ 635	\$ 521	\$ 780	\$ 3,586

(1) Assumes the principal balance of the convertible notes, \$372 million (US\$274 million) remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility accessed in 2021 to support customers refunds of non-refundable tickets is included.

Principal repayments in the table above exclude discounts and transaction costs of \$141 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, 2023
	June 30, 2023	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 12,305	\$ -	\$ (681)	\$ -	\$ 206	\$ 16	\$ -	\$ 11,846
Air Canada aircraft	1,506	-	(86)	-	37	-	-	1,457
Regional aircraft	779	-	(34)	-	19	-	-	764
Land and buildings	451	-	(7)	-	1	-	1	446
Lease liabilities	2,736	-	(127)	-	57	-	1	2,667
Unamortized debt issuance costs	(155)	-	-	(1)	-	15	-	(141)
Total liabilities from financing activities	\$ 14,886	\$ -	\$ (808)	\$ (1)	\$ 263	\$ 31	\$ 1	\$ 14,372

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Sept. 30, 2023
	Jan. 1, 2023	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 13,445	\$ 84	\$ (1,722)	\$ -	\$ (6)	\$ 45	\$ -	\$ 11,846
Air Canada aircraft	1,667	-	(257)	-	1	-	46	1,457
Regional aircraft	917	-	(118)	-	-	-	(35)	764
Land and buildings	454	-	(23)	-	1	-	14	446
Lease liabilities	3,038	-	(398)	-	2	-	25	2,667
Unamortized debt issuance costs	(177)	-	-	(1)	-	37	-	(141)
Total liabilities from financing activities	\$ 16,306	\$ 84	\$ (2,120)	\$ (1)	\$ (4)	\$ 82	\$ 25	\$ 14,372

4. 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	
	2023	2022	2023	2022
Current income tax (expense) recovery	\$ 6	\$ (18)	\$ 12	\$ (42)
Deferred income tax (expense) recovery	(73)	14	(10)	(156)
Income tax recovery (expense)	\$ (67)	\$ (4)	\$ 2	\$ (198)

The Corporation's statutory tax rate for the nine months ended September 30, 2023 was 26.46% (26.46% for the nine months ended September 30, 2022).

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

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Remeasurements on net employee benefits				
- current income tax (expense) recovery	\$ (1)	\$ 13	\$ (3)	\$ 10
- deferred income tax (expense) recovery	69	(12)	14	166
Income tax recovery (expense)	\$ 68	\$ 1	\$ 11	\$ 176

5. EARNINGS (LOSS) PER SHARE

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

(in millions, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Numerator:				
Net income (loss) for the period:	\$ 1,250	\$ (508)	\$ 2,092	\$ (1,868)
Effect of assumed conversion of convertible notes	(89)	89	(2)	(36)
Remove anti-dilutive impact	-	(89)	-	36
Adjusted numerator for diluted loss per share:	1,161	(508)	2,090	(1,868)
Denominator:				
Weighted-average shares	358	358	358	358
Effect of potential dilutive securities:				
Stock options	-	-	-	-
Convertible notes	18	46	18	48
Remove anti-dilutive impact	-	(46)	-	(48)
Adjusted denominator for diluted loss per share	376	358	376	358
Basic earnings (loss) per share	\$ 3.49	\$ (1.42)	\$ 5.84	\$ (5.22)
Diluted earnings (loss) per share	\$ 3.08	\$ (1.42)	\$ 5.55	\$ (5.22)

The calculation of earnings (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.

6. 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. U.S. dollar amounts are converted using the September 30, 2023 closing rate of CDN\$1.3577. Minimum future commitments under these contractual arrangements are shown below. They include the acquisition of 18 Boeing 787-10 aircraft which Air Canada announced in September 2023. Deliveries are scheduled to begin in the fourth quarter of 2025 with the last aircraft scheduled for delivery in the first quarter of 2027. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft. This purchase agreement substitutes for a previously announced agreement to purchase two Boeing 777 freighter aircraft and, as a result, Air Canada will no longer take delivery of the two freighters. Prepaid expenses and other current assets include the return of advance payments related to these two freighters.

(Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Capital commitments	\$ 100	\$ 1,914	\$ 2,053	\$ 3,948	\$ 1,299	\$ 2,000	\$ 11,314

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 17 to the 2022 annual consolidated financial statements for information on the Corporation's risk management strategy.

Summary of Gain (loss) on financial instruments recorded at fair value

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Embedded derivative on convertible notes	\$ 108	\$ (22)	\$ 32	\$ 174
Short-term investments	(7)	(3)	(8)	(84)
Share forward contracts	-	-	-	(1)
Gain (loss) on financial instruments recorded at fair value	\$ 101	\$ (25)	\$ 24	\$ 89

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 processes to monitor and maintain compliance with terms of financing agreements. At September 30, 2023, total liquidity was \$9,949 million comprised of cash and cash equivalents, short-term and long-term investments of \$8,934 million, and \$1,015 million available under undrawn credit facilities. Cash and cash equivalents include \$240 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.

Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at September 30, 2023, as further described below, approximately 75% of net U.S. cash outflows are hedged for the remainder of 2023, 62% for 2024 and 21% for 2025, 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 62% coverage over the next 18 months.

As at September 30, 2023, the Corporation had outstanding foreign currency options and swap agreements, settling in 2023, 2024 and 2025, to purchase at maturity \$6,855 million (US\$5,050 million) of U.S. dollars at a weighted average rate of \$1.3105 per \$1.00 U.S. dollar (as at December 31, 2022 – \$5,798 million (US\$4,310 million) with settlements in 2023 and 2024 at a weighted average rate of \$1.2986 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 €297 million, GBP £248 million, JPY ¥14,825 million, and AUD \$147 million) which settle in 2023, 2024 and 2025 at weighted average rates of €1.1129, £1.3029, ¥0.0078, and \$0.6980 per \$1.00 U.S. dollar respectively (as at December 31, 2022 - EUR €198 million, GBP £244 million, JPY ¥17,405 million, CNH ¥355 million and AUD \$126 million with settlement in 2023 and 2024 at weighted average rates of €1.0828, £1.2467, ¥0.0082, ¥0.1419, and AUD \$0.7072 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, 2023 was \$60 million in favour of the Corporation (as at December 31, 2022 – \$140 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 2023, foreign exchange gain (loss) related to these derivatives was \$215 million gain (\$316 million gain for the nine month period ended September 30, 2023; \$36 million loss and \$102 million gain respectively for the three- and nine-month periods ended September 30, 2022). In the third quarter of 2023, foreign exchange derivative contracts cash settled with a net fair value of \$36 million in favour of the Corporation (\$116 million in favour of the Corporation for the nine month period ended September 30, 2023; \$24 million in favour of the Corporation and \$20 million in favour of the Corporation respectively for the three- and nine-month periods ended September 30, 2022).

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, 2023 amounted to \$1,167 million (US\$859

million) (\$693 million (US\$511 million) as at December 31, 2022). During the three months ended September 30, 2023, a gain of \$25 million (\$8 million gain for the nine month period ended September 30, 2023; \$47 million gain and \$77 million gain respectively for the three- and nine-month periods ended September 30, 2022) was recorded in foreign exchange gain reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short-term and long-term investment balances held.

Fuel Price Risk Management

During the third quarter of 2023, fuel derivative contracts cash settled with a fair value of \$91 million in favour of the Corporation, with a net hedging gain of \$68 million recorded in Aircraft fuel expense. There were no outstanding fuel derivatives as at September 30, 2023.

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 as at September 30, 2023.

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 \$11,246 million compared to its carrying value of \$11,846 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 17 to the 2022 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the nine months ended September 30, 2023.

(Canadian dollars in millions)	September 30, 2023	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)
Financial Assets				
Held-for-trading securities				
Cash equivalents	\$ 252	\$ –	\$ 252	\$ –
Short-term investments	5,832	–	5,832	–
Long-term investments	642	–	642	–
Equity investment in Chorus	37	37	–	–
Derivative instruments				
Foreign exchange derivatives	86	–	86	–
Total	\$ 6,849	\$ 37	\$ 6,812	\$ –
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	26	–	26	–
Embedded derivative on convertible notes	88	–	88	–
Total	\$ 114	\$ –	\$ 114	\$ –

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

8. 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:

Passenger Revenues (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Canada	\$ 1,515	\$ 1,466	\$ 3,861	\$ 3,229
U.S. Transborder	1,127	915	3,130	2,101
Atlantic	2,201	1,770	4,790	3,285
Pacific	704	382	1,769	706
Other	314	285	1,300	855
	\$ 5,861	\$ 4,818	\$ 14,850	\$ 10,176

Cargo Revenues (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Canada	\$ 22	\$ 26	\$ 69	\$ 84
U.S. Transborder	11	15	33	38
Atlantic	100	141	328	411
Pacific	54	70	157	343
Other	28	29	93	102
	\$ 215	\$ 281	\$ 680	\$ 978

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.