



Third Quarter 2021
INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes
November 2, 2021



A STAR ALLIANCE MEMBER 

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)	September 30, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 5,220	\$ 3,658
Short-term investments	3,482	3,843
Total cash, cash equivalents and short-term investments	8,702	7,501
Restricted cash	92	106
Accounts receivable	744	644
Aircraft fuel inventory	79	41
Spare parts and supplies inventory	108	125
Prepaid expenses and other current assets	134	254
Total current assets	9,859	8,671
Investments, deposits and other assets	1,095	833
Property and equipment	11,735	12,137
Pension assets	3,206	2,840
Deferred income tax	37	25
Intangible assets	1,095	1,134
Goodwill	3,273	3,273
Total assets	\$ 30,300	\$ 28,913
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,341	\$ 2,465
Advance ticket sales	1,932	2,314
Aeroplan and other deferred revenue	861	572
Current portion of long-term debt and lease liabilities	Note 5 1,015	1,788
Total current liabilities	6,149	7,139
Long-term debt and lease liabilities	Note 5 15,667	11,201
Aeroplan and other deferred revenue	3,771	4,032
Pension and other benefit liabilities	2,551	3,015
Maintenance provisions	968	1,040
Other long-term liabilities	Note 4 974	696
Deferred income tax	75	75
Total liabilities	\$ 30,155	\$ 27,198
SHAREHOLDERS' EQUITY		
Share capital	Note 4 & 7 2,734	2,150
Contributed surplus	102	98
Accumulated other comprehensive loss	(38)	(39)
Deficit	(2,653)	(494)
Total shareholders' equity	145	1,715
Total liabilities and shareholders' equity	\$ 30,300	\$ 28,913

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		
	2021	2020	2021	2020	
Operating revenues					
Passenger	Note 11	\$ 1,636	\$ 507	\$ 2,457	\$ 3,907
Cargo	Note 11	366	216	1,005	634
Other	Note 4	101	34	207	465
Total revenues		2,103	757	3,669	5,006
Operating expenses					
Aircraft fuel		472	175	911	1,135
Wages, salaries and benefits		592	475	1,617	1,735
Regional airlines expense, excluding fuel		312	198	700	841
Depreciation and amortization		400	423	1,217	1,414
Aircraft maintenance		153	45	430	496
Airport and navigation fees		166	97	373	438
Sales and distribution costs		74	30	142	226
Ground package costs		23	5	29	236
Catering and onboard services		52	26	94	146
Communications and information technology		85	66	271	292
Special items	Note 3	(103)	(192)	(157)	44
Other		241	194	588	776
Total operating expenses		2,467	1,542	6,215	7,779
Operating loss		(364)	(785)	(2,546)	(2,773)
Non-operating income (expense)					
Foreign exchange gain (loss)		(136)	88	(74)	(381)
Interest income		17	32	54	106
Interest expense	Note 5	(197)	(196)	(538)	(474)
Interest capitalized		4	6	13	20
Net financing expense relating to employee benefits		(1)	(6)	(10)	(26)
Gain (loss) on financial instruments	Note 10	114	46	(114)	(28)
Loss on debt settlements and modifications	Note 5	(110)	-	(129)	-
Other		(6)	(6)	(20)	(22)
Total non-operating expense		(315)	(36)	(818)	(805)
Loss before income taxes		(679)	(821)	(3,364)	(3,578)
Income tax recovery	Note 6	39	136	255	92
Net loss for the period		\$ (640)	\$ (685)	\$ (3,109)	\$ (3,486)
Net loss per share	Note 8				
Basic loss per share		\$ (1.79)	\$ (2.31)	\$ (8.90)	\$ (12.58)
Diluted loss per share		\$ (1.79)	\$ (2.31)	\$ (8.97)	\$ (12.58)

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	
	2021	2020	2021	2020
Comprehensive income (loss)				
Net loss for the period	\$ (640)	\$ (685)	\$ (3,109)	\$ (3,486)
Other comprehensive income (loss), net of tax expense:				
Items that will not be reclassified to net income				
Remeasurements on employee benefit liabilities	220	365	950	444
Remeasurements on equity investments	(15)	(12)	1	(88)
Total comprehensive loss	\$ (435)	\$ (332)	\$ (2,158)	\$ (3,130)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (Canadian dollars in millions)	Share capital	Contributed surplus	Accumulated OCI	Retained earnings (deficit)	Total shareholders' equity
January 1, 2020	\$ 785	\$ 83	\$ 25	\$ 3,507	\$ 4,400
Net loss	-	-	-	(3,486)	(3,486)
Remeasurements on employee benefit liabilities	-	-	-	444	444
Remeasurements on equity investments	-	-	(88)	-	(88)
Total comprehensive loss	-	-	(88)	(3,042)	(3,130)
Share-based compensation	-	14	-	-	14
Shares issued, net (Note 7)	558	-	-	-	558
Shares purchased and cancelled under issuer bid	(8)	-	-	(119)	(127)
September 30, 2020	\$ 1,335	\$ 97	\$ (63)	\$ 346	\$ 1,715
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 7)	584	(6)	-	-	578
September 30, 2021	\$ 2,734	\$ 102	\$ (38)	\$ (2,653)	\$ 145

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	
	2021	2020	2021	2020
Cash flows from (used for)				
Operating				
Net loss for the period	\$ (640)	\$ (685)	\$ (3,109)	\$ (3,486)
Adjustments to reconcile to net cash from operations				
Deferred income tax Note 6	(45)	(140)	(264)	(58)
Depreciation and amortization	400	423	1,217	1,414
Foreign exchange (gain) loss	93	(112)	(255)	361
Employee benefit funding less than expense	64	49	398	222
(Gain) loss on financial instruments Note 10	(114)	(46)	114	28
Loss on debt settlements and modifications Note 5	110	-	129	-
Change in maintenance provisions	7	(78)	(126)	9
Changes in non-cash working capital balances	413	286	(173)	(362)
Special items Note 3	(13)	(3)	-	327
Other	(6)	20	73	(12)
Net cash flows from (used in) operating activities	269	(286)	(1,996)	(1,557)
Financing				
Proceeds from borrowings Note 5	6,760	1,114	8,027	6,008
Reduction of long-term debt and lease liabilities Note 5	(2,953)	(1,433)	(4,234)	(2,211)
Shares purchased for cancellation Note 7	-	-	-	(132)
Issue of shares Note 7	-	-	554	554
Financing fees Note 5	(196)	(13)	(203)	(75)
Net cash flows from (used in) financing activities	3,611	(332)	4,144	4,144
Investing				
Investments, short-term and long-term	(1,299)	(368)	51	(72)
Additions to property, equipment and intangible assets	(149)	(282)	(695)	(867)
Proceeds from sale of assets	5	2	16	6
Proceeds from sale and leaseback of assets	-	-	11	-
Other	20	4	15	41
Net cash flows used in investing activities	(1,423)	(644)	(602)	(892)
Effect of exchange rate changes on cash and cash equivalents	53	(37)	16	5
Increase (decrease) in cash and cash equivalents	2,510	(1,299)	1,562	1,700
Cash and cash equivalents, beginning of period	2,710	5,089	3,658	2,090
Cash and cash equivalents, end of period	\$ 5,220	\$ 3,790	\$ 5,220	\$ 3,790
Cash payments of interest Note 5	\$ 136	\$ 121	\$ 419	\$ 365
Cash payments (recoveries) of income taxes	\$ (42)	\$ (88)	\$ -	\$ 3

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, 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”).

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

Air Canada, along with the global airline industry, continues to face a significant decrease in traffic, as compared to the year 2019, and a corresponding decline in revenue and cash flows as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world. While it is improving, there is limited visibility on travel demand given changing government restrictions in place around the world and the severity of the restrictions which have only recently begun to ease in Canada. Air Canada cannot predict the full impact or the timing for when conditions may 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, vaccinations and treatments for the virus, government actions, and passenger reaction, the complexities of restarting an industry whose many stakeholders must act in coordination with each other as well as timing and extent of a recovery in international and business travel which are important segments of Air Canada’s markets, none of which can be predicted with certainty.

The Corporation has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern was principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months. However, given the impact of the COVID-19 pandemic, this normal seasonal demand pattern, while improving, continues to be depressed as compared to the period prior to the onset of the COVID-19 pandemic. With demand being depressed; certain revenues, expenses, and balance sheet items tied directly to sales and operating activities are and will continue to be considerably impacted by the drop in traffic. The airline continues to dynamically adjust capacity as required. While the Corporation has taken steps to reduce its cost structure in response to the COVID-19 pandemic, the Corporation continues to have substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short term.

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, 2020. 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 November 1, 2021.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2020 annual consolidated financial statements except for change noted below.

Adoption of Accounting Standard Amendments - Interbank Offered Rate ("IBOR") Reform

In August 2020, the IASB published amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

The amendments address issues that arise from implementation of IBOR reform, where IBORs are replaced with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized.

The Corporation adopted these amendments on January 1, 2021, electing to apply the practical expedient. The adoption of this standard has no impact on the Corporation's consolidated financial statements on date of adoption or for comparative periods.

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	
	2021	2020	2021	2020
Impairments (impairment reversal)	\$ (12)	\$ (3)	\$ 14	\$ 327
Canada emergency wage subsidy, net	(103)	(189)	(424)	(391)
Workforce reduction provisions	4	-	163	112
Benefit plan amendments	8	-	76	-
Other	-	-	14	(4)
Special items	\$ (103)	\$ (192)	\$ (157)	\$ 44

Impairments

In response to capacity reductions related to the impact of the COVID-19 pandemic, Air Canada accelerated the retirement of certain older aircraft from its fleet. As a result, a non-cash impairment charge of \$283 million was recorded in 2020 (\$295 million in the nine months ended September 30, 2020), reflecting the write-down of right-of-use assets for leased aircraft and the reduction of carrying values of owned aircraft to expected disposal proceeds.

In addition, the Corporation recorded an impairment charge of \$32 million in the nine months ended September 30, 2020 related to previously capitalized costs incurred for the development of technology based intangible assets which are now cancelled.

In the third quarter of 2021, an impairment reversal of \$12 million was recorded due to expected costs to meet lease return conditions being lower than originally estimated. In the nine months ended September 30, 2021, an additional impairment charge of \$14 million, net of impairment reversals, was recorded as a result of reductions to the estimates of the expected disposal proceeds on owned aircraft, as partially offset by lower-than-expected costs to meet contractual return conditions on lease returns. Further changes to these estimates may result in additional adjustments to the impairment charge in future periods.

Canada Emergency Wage Subsidy

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

The Corporation has recorded a total gross subsidy under the CEWS program of \$103 million in the third quarter of 2021 (\$429 million for the nine months ended September 30, 2021; \$197 million and \$492 million for the three and nine month periods ended September 30, 2020). Cash payments of \$113 million have been received in the third quarter of 2021 (\$415 million for the nine months ended September 30, 2021; \$260 million and \$440 million for the three and nine month periods ended September 30, 2020). 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.

Air Canada continued its participation in the CEWS program which ended in October 2021.

Workforce Reduction Provisions

As a result of the COVID-19 pandemic and to mitigate the number of employees who remain on layoff status, Air Canada offered early retirement incentive programs to its unionized workforce. These programs provide for pension improvements which are payable from the defined benefit pension plan

for eligible employees, and as such do not impact the Corporation's liquidity position. Termination benefits and a curtailment loss of \$6 million were recorded during the third quarter of 2021 (\$163 million for the nine month period ended September 30, 2021) as a special item.

As a result of the impact of the COVID-19 pandemic, Air Canada undertook a workforce reduction in the second quarter of 2020. A workforce reduction provision of \$76 million was recorded in the second quarter of 2020 related to these measures (\$78 million for the year ended December 31, 2020). Payments of \$13 million were made from such provision in the third quarter (\$38 million for the nine month period ended September 30, 2021), with a remaining obligation of \$7 million at September 30, 2021. The provision includes the estimated notice of termination and severance costs under the Corporation's collective agreements and the *Canada Labour Code*, which amount is subject to adjustment depending on the duration and number of employees who remain on layoff status. In addition to the provision, termination benefits and curtailments of \$36 million related to the pension and benefit obligations were recorded in 2020.

Benefit Plan Amendments

In April 2021, Air Canada received the decision of the arbitrator in relation to the determination of 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. The Corporation recorded a one-time pension past service cost of \$68 million as a special item in the second quarter of 2021 as a result of this plan amendment. In the third quarter of 2021, the period of retroactivity was resolved and an additional cost of \$8 million was recorded for the estimated impact of employees that will elect for retroactivity to 2019. This amendment does 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

On April 2, 2021, Air Canada announced that the Arrangement Agreement for the proposed acquisition of Transat A.T. Inc ("Transat") was terminated. Air Canada and Transat had originally agreed in June 2019 on the acquisition, the terms of which were subsequently amended in August 2019 and then revised in October 2020 as a result of the severe economic impact of the COVID-19 pandemic.

Both Air Canada and Transat agreed to terminate the Arrangement Agreement with Air Canada paying Transat a termination fee of \$12.5 million, and with Transat no longer under any obligation to pay Air Canada any fee should Transat be involved in another acquisition or similar transaction in the future.

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 Air Canada Express flights. Through the revised agreement, Air Canada has transferred the operation of its Embraer E175 fleet to Jazz from Sky Regional and Jazz has become the sole operator of Air Canada Express services. 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. The expense includes a net provision of \$12 million in estimated termination costs to be paid, offset by retirement of lease liabilities and inventory costs associated with exiting aircraft.



4. DEBT AND EQUITY FINANCING AGREEMENTS WITH THE GOVERNMENT OF CANADA

On April 12, 2021, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada (acting through Canada Enterprise Emergency Funding Corporation) which allows Air Canada to access up to \$5.879 billion in liquidity through the Large Employer Emergency Financing Facility (LEEFF) program.

The financial package provides for fully repayable loans that Air Canada will only draw down if and as required, as well as an equity investment, and is comprised of:

- Gross proceeds of \$500 million for 21,570,942 Air Canada shares at a price of \$23.17933 per share (net proceeds of \$480 million).
- \$1.5 billion in the form of a secured revolving credit facility maturing in April 2026 and bearing interest at the Canadian Dollar Offered Rate (CDOR) plus 1.5%; the facility is secured on a first lien basis by the assets of Aeroplan, Air Canada's shares in Aeroplan as well as certain assets of Air Canada, including certain intellectual property relating to the Aeroplan loyalty program. No amount has been drawn by Air Canada under this facility.
- \$2.475 billion in the form of three unsecured non-revolving credit facilities of \$825 million each with: the first, five-year tranche maturing in April 2026, at CDOR plus 1.75% per annum; the second, six-year tranche maturing in April 2027, at 6.5% per annum (increasing to 7.5% after 5 years); and the third, seven-year tranche maturing in April 2028, at 8.5% per annum (increasing to 9.5% after 5 years). No amount has been drawn under these facilities.
- As consideration for the Government making the above secured and unsecured credit facilities available to Air Canada, Air Canada issued an aggregate of 14,576,564 warrants initially exercisable for the purchase of an equal number of Air Canada shares, subject to customary adjustments, at an exercise price of \$27.2698 per share during a 10-year term, representing an aggregate exercise price equal to 10% of the total commitment available under the above secured and unsecured credit facilities; 50% of the warrants vested concurrently with the implementation of the credit facilities and the remaining 50% of the warrants will vest on a proportional basis to the amounts that Air Canada draws, if any, under the above unsecured credit facilities; the warrants are subject to a one-time call right in favour of Air Canada, pursuant to which Air Canada may, upon repayment of all indebtedness, if any, outstanding under the above secured and unsecured credit facilities and termination thereof, repurchase for cancellation all outstanding warrants at a price per warrant equal to its fair market value determined by third-party valuers. The vested warrants are exercisable by the holder either by paying the exercise price or by using a cashless exercise option.
- Up to \$1.404 billion in the form of an unsecured credit facility tranche to support customer refunds of non-refundable tickets. The facility has a seven-year term maturing April 2028 and carries an annual interest rate of 1.211%. Draws under this facility are made monthly based on the amount of refunds processed and paid during the period. As at September 30, 2021, \$1.205 billion has been drawn under this facility to support customer refunds of non-refundable tickets, and a further \$3 million is being drawn for refunds paid up until September 30, 2021. Draws under this facility may continue up until November 30, 2021 as eligible refunds are paid.

As part of the financial package, Air Canada has agreed to a number of commitments related to customer refunds, service to certain regional communities, restrictions on the use of the funds provided, employment levels and capital expenditures. Such commitments include:

- Using the proceeds from the financial package (other than the \$1.404 billion ticket refund facility) only for the payment of operating expenses and ordinary course business obligations of Air Canada as they become due in accordance with past practices.



- Offering eligible customers who purchased non-refundable fares but did not travel due to COVID-19 since February 2020 up to April 13, 2021 the option of a refund to the original form of payment. In support of its travel agency partners, Air Canada has decided that it will not retract agency sales commissions on refunded fares.
- The resumption of service or access to Air Canada's network for most regional communities where service was suspended because of COVID-19's impact on travel, through direct services or new interline agreements with third party regional carriers.
- Restricting certain expenditures and senior executive compensation in respect of any financial year during which the secured and unsecured facilities are outstanding (other than the unsecured credit facility tranche to support customer refunds of non-refundable tickets).
- Restricting dividends or payments of distributions on Air Canada's equity interests, or any purchases, redemptions or other acquisitions or retirements for value of any equity interests or convertible indebtedness of Air Canada while any indebtedness is outstanding under any of the secured and unsecured credit facilities (excluding the unsecured credit facility tranche to support customer refunds of non-refundable tickets) and for a period of 12 months following the termination of such facilities.
- Obligations to maintain employment at levels which are no lower than those at April 1, 2021.
- The completion of the airline's acquisition of 33 Airbus A220 aircraft, manufactured at Airbus' Mirabel, Quebec facility. Air Canada has also agreed to complete its existing firm order of 40 Boeing 737 Max aircraft. Completion of these orders remains subject to the terms and conditions of the applicable purchase agreements.

In connection with the Government's equity investment, Air Canada has agreed to provide the Government with customary registration rights. The Air Canada shares and warrants issued to the Government are subject to certain transfer restrictions, namely (i) restrictions on any transfer, other than to affiliates of the Government, for a period commencing on the date of issuance and ending, in the case of the shares, on the date that is one year from the date of issuance and, in respect of the warrants, the date on which Air Canada's previously described call right has expired pursuant to the terms of the warrants, (ii) restrictions on transfers to competitors and securityholders of Air Canada that beneficially own or control 5% or more of Air Canada's issued and outstanding shares, including any convertible securities, on an as converted basis, subject to customary exceptions, and (iii) in respect of the warrants, once the transfer restriction described in (i) has expired, minimum block sizes for transfers. The warrants are also subject to an exercise cap which limits the Government's aggregate ownership of Air Canada shares. The exercise cap prohibits the Government from exercising any warrants if the voting rights attached to the Air Canada shares held by the Government (including those issued upon any exercise of the warrants) would exceed 19.99% of the aggregate votes attached to all of Air Canada's voting securities outstanding immediately after giving effect to such exercise.

Accounting impact

The debt and equity instruments issued are measured at fair value at inception. Any difference between fair value and proceeds received is recognized for accounting purposes as a government grant. The deferred grant income recorded at the inception of the agreement, and taking into account the amounts drawn under the ticket refund facility up to September 30, 2021, was \$124 million. This deferred grant income reflects the aggregate net fair value adjustments of the ticket refund facility, the shares issued and vested warrants and will be amortized into Other revenues on a straight line basis over three years. The amortization period is based on the Corporation's approximation of the expected timing of the costs for which the grant is intended to compensate. During the third quarter of 2021, grant income of \$10 million (\$14 million for the nine months ended September 30, 2021) was recognized in Other revenues.

As described further in Note 5, as of September 30, 2021, \$1,205 million had been drawn on the ticket refund facility.

The Government's ability to choose whether to exercise the warrants by paying the strike price or to use a cashless exercise option gives rise to a financial liability. The fair value of the vested warrants at initial recognition was \$109 million and is recorded in Other long-term liabilities. Fair value of the warrants is determined using the Black-Scholes option valuation model. Subsequent to initial

recognition, the Corporation will measure the financial liability at fair value at each reporting date, recognizing changes in fair value in Gain (loss) on financial instruments. The unvested warrants are accounted for only if, and to the extent that, Air Canada draws on the \$2.475 billion unsecured non-revolving facilities described above. At September 30, 2021, the fair value of the warrants was \$84 million and the Corporation recorded an unrealized gain of \$16 million (\$25 million for the nine months ended September 30, 2021), which unrealized gain is largely explained by the decrease in the Air Canada share price since the issuance of the warrants. Refer to Note 10.

5. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	September 30, 2021 (Canadian dollars in millions)	December 31, 2020 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2021 – 2030	4.88	\$ 3,569	\$ 3,791
Floating rate U.S. dollar financing	2026 – 2027	2.02	440	483
Fixed rate CDN dollar financing	2026 – 2030	3.78	219	232
Floating rate CDN dollar financing	2026 – 2033	2.18	1,122	1,007
Fixed rate Japanese yen financing	2027	1.84	134	145
Floating rate Japanese yen financing	2027	3.00	2	5
Convertible notes	2025	4.00	710	667
Credit facility – CDN dollar (b)	2028	1.21	956	-
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	-
Senior secured notes – U.S. dollar (d)	2026	3.88	1,522	-
Senior secured credit facility – U.S. dollar (d)	2028	4.25	2,916	-
Senior and Second Lien secured notes – CDN dollar (d)			-	1,040
Senior unsecured notes – U.S. dollar			-	509
Other secured financing – U.S. dollar (c),(d)			-	1,483
Other secured financing – CDN dollar (c)	2023		-	199
Long-term debt		3.93	13,590	9,561
Lease liabilities				
Air Canada aircraft	2021 – 2031	4.90	1,885	1,996
Regional aircraft	2023 – 2035	6.11	1,028	1,171
Land and buildings	2021 – 2078	5.44	412	429
Lease liabilities		5.34	3,325	3,596
Total debt and lease liabilities		4.21	16,915	13,157
Unamortized debt issuance costs and discounts			(233)	(168)
Current portion – Long-term debt			(497)	(1,244)
Current portion – Air Canada aircraft			(323)	(340)
Current portion – Regional aircraft			(170)	(179)
Current portion – Land and buildings			(25)	(25)
Long-term debt and lease liabilities			\$ 15,667	\$ 11,201

The above table provides terms of instruments disclosed in Note 9 to the 2020 annual consolidated financial statements of the Corporation as well as updated terms and instruments concluded during the nine months ended September 30, 2021 and described below.

(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 were financed under this facility, the bridge financing of \$788 million put in place in April 2020 was repaid concurrently. Air Canada took delivery of the final three Airbus A220 aircraft under this facility in the first quarter of 2021 and as at March 31, 2021, all 18 Airbus A220 aircraft were financed under this facility and the corresponding bridge financing was repaid.

In March 2021, Air Canada concluded a committed secured facility totaling US\$475 million to finance the purchase of the next 15 Airbus A220 aircraft scheduled for delivery in 2021 and 2022, the first of which arrived in March 2021. As at September 30, 2021, Air Canada has taken delivery of 6 A220 aircraft under this facility and has drawn \$216 million under this facility. Loans for each aircraft have a final maturity date 10 years after delivery of the applicable aircraft. Interest rates, which can be floating or fixed, are set on draw down of each loan. Floating interest rates are generally CDOR plus a margin of 2.28%. Fixed interest rates are based on the rate to swap floating rate debt of CDOR plus a margin of 2.28% to a fixed rate debt plus a margin of 2.49%.

Aircraft-related financings include the financing facilities related to the 2013-1 EETC offering. In May 2021, US\$84 million (\$101 million) related to the series 2013-1B equipment notes were refinanced, at their original maturity, with an interest rate of 4.75% per annum and a final expected distribution date of May 2025.

(b) In connection with the Government of Canada financing agreements described in Note 4, as at September 30, 2021, Air Canada has accessed \$1.205 billion of the \$1.404 billion unsecured credit facility tranche to support customer refunds of non-refundable tickets. The facility has a seven-year term maturing April 2028 with a stated annual interest rate of 1.211%. The book value of the debt, \$956 million at September 30, 2021, is recognized at inception using an effective interest rate of 4.90%. The difference accretes the carrying value of the underlying debt upwards to its face value using the effective interest rate method. Draws under this facility are made monthly based on the amount of refunds processed and paid during the period. No draws have been made on the \$3.975 billion in other credit facilities also available under the financing agreements.

(c) 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 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 transaction. The US dollar revolving credit facility was repaid as part of the transaction described in (d) below. The Canadian revolving credit facility was also repaid in August and remains undrawn as of September 30, 2021.

(d) In August 2021, Air Canada completed a private offering of \$2.0 billion of 4.625% senior secured notes due 2029 (the "Canadian Dollar Notes") and US\$1.2 billion of 3.875% senior secured notes due 2026 (the "US Dollar Notes", and together with the Canadian Dollar Notes, the "Notes"). Air Canada also closed a US\$2.9 billion new senior secured credit facility, comprised of a US\$2.3 billion new term loan B maturing in 2028 (the "Term Loan"), together with a new undrawn US\$600 million revolving credit facility maturing in 2025 (the "Revolving Facility" and, together with the Term Loan, the "Senior Secured Credit Facilities").

Air Canada received aggregate gross proceeds of approximately \$7.1 billion from the sale of the Notes and from the Senior Secured Credit Facilities. Air Canada applied the proceeds from the sale of the Canadian Dollar Notes, together with the proceeds from the Term Loan, to (i) satisfy and discharge all of the Corporation's outstanding \$200 million aggregate principal amount of its 4.75% senior secured notes due 2023 and redeem all of the Corporation's outstanding \$840 million aggregate principal amount of its 9.00% second lien notes due 2024, (ii) repay all of the Corporation's US\$1,178 million of indebtedness outstanding under the loan agreement dated as of October 6, 2016, which was comprised of a syndicated secured US dollar term loan B facility and a syndicated secured US dollar revolving credit facility and (iii) satisfy applicable transaction costs, fees and expenses. The Corporation recorded a \$110 million loss on debt settlements related to these repayments.

The balance of the proceeds are being retained for working capital and other general corporate purposes. The Revolving Facility is undrawn as of September 30, 2021, and any future borrowings thereunder are also intended to fund working capital and other general corporate purposes.

The Notes and Air Canada's obligations under the Senior Secured Credit Facilities are senior secured obligations of the Corporation, secured on a first-lien basis, subject to certain permitted liens, by certain collateral comprised of substantially all of the Corporation's international routes, airport slots and gate leaseholds.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Interest on debt	\$ 154	\$ 147	\$ 406	\$ 317
Interest on lease liabilities				
Air Canada aircraft	22	26	69	84
Regional aircraft	15	18	47	58
Land and buildings	6	5	16	15
Interest expense	\$ 197	\$ 196	\$ 538	\$ 474

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	
	2021	2020	2021	2020
Short-term leases	\$ 3	\$ 4	\$ 4	\$ 29
Variable lease payments not included in lease liabilities	6	8	20	22
Expense related to leases (included in Other operating expenses)	\$ 9	\$ 12	\$ 24	\$ 51

Total cash outflows for payments on lease liabilities was \$181 million for the three months ended September 30, 2021 (\$554 million for the nine months ended September 30, 2021; \$210 million and \$658 million for the three and nine month periods ended September 30, 2020), of which \$138 million was for principal repayments (\$422 million for the nine months ended September 30, 2021; \$161 million and \$501 million for the three and nine month periods ended September 30, 2020).

Maturity Analysis

Principal and interest repayment requirements as at September 30, 2021 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the September 30, 2021 closing rate of CDN\$1.2680.

Principal (Canadian dollars in millions)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 139	\$ 505	\$ 656	\$ 474	\$ 1,779	\$ 10,523	\$ 14,076
Air Canada aircraft	92	308	302	289	275	619	1,885
Regional aircraft	49	162	163	136	122	396	1,028
Land and buildings	6	25	23	23	24	311	412
Lease liabilities	\$ 147	\$ 495	\$ 488	\$ 448	\$ 421	\$ 1,326	\$ 3,325
Total long-term debt and lease liabilities	\$ 286	\$ 1,000	\$ 1,144	\$ 922	\$ 2,200	\$ 11,849	\$ 17,401

Interest (Canadian dollars in millions)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 59	\$ 537	\$ 515	\$ 494	\$ 469	\$ 659	\$ 2,733
Air Canada aircraft	22	76	62	48	35	46	289
Regional aircraft	15	53	42	32	24	103	269
Land and buildings	5	20	19	18	17	208	287
Lease liabilities	\$ 42	\$ 149	\$ 123	\$ 98	\$ 76	\$ 357	\$ 845
Total long-term debt and lease liabilities	\$ 101	\$ 686	\$ 638	\$ 592	\$ 545	\$ 1,016	\$ 3,578

(1) Assumes the principal balance of the convertible notes, \$948 million (US\$748 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,205 million for the unsecured credit facility described in (b) above is included.

Principal repayments in the table above exclude discounts and transaction costs of \$233 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			Sep. 30, 2021
	Jun. 30, 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	\$ 9,508	\$ 6,760	\$ (2,815)	\$ -	\$ 188	\$ (51)	\$ -	\$ 13,590
Air Canada aircraft	1,934	-	(91)	-	43	-	(1)	1,885
Regional aircraft	1,045	-	(41)	-	23	-	1	1,028
Land and buildings	416	-	(6)	-	-	-	2	412
Lease liabilities	3,395	-	(138)	-	66	-	2	3,325
Unamortized debt issuance costs and other adjustments	(157)	-	-	(196)	-	120	-	(233)
Total liabilities from financing activities	\$ 12,746	\$ 6,760	\$ (2,953)	\$ (196)	\$ 254	\$ 69	\$ 2	\$ 16,682

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Sep. 30, 2021
	Dec. 31, 2020	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 9,561	\$ 8,027	\$ (3,812)	\$ -	\$ (4)	\$ (182)	\$ -	\$ 13,590
Air Canada aircraft	1,996	-	(280)	-	(9)	-	178	1,885
Regional aircraft	1,171	-	(123)	-	(6)	-	(14)	1,028
Land and buildings	429	-	(19)	-	(1)	-	3	412
Lease liabilities	3,596	-	(422)	-	(16)	-	167	3,325
Unamortized debt issuance costs and other adjustments	(168)	-	-	(203)	-	138	-	(233)
Total liabilities from financing activities	\$ 12,989	\$ 8,027	\$ (4,234)	\$ (203)	\$ (20)	\$ (44)	\$ 167	\$ 16,682

6. INCOME TAXES

Income Tax Recovery

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	
	2021	2020	2021	2020
Current income tax (expense) recovery	\$ (6)	\$ (4)	\$ (9)	\$ 34
Deferred income tax recovery	45	140	264	58
Income tax recovery	\$ 39	\$ 136	\$ 255	\$ 92

The Corporation's statutory tax rate for the nine months ended September 30, 2021 was 26.47% (26.59% for the nine months ended September 30, 2020).

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

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Remeasurements on employee benefit liabilities				
- current income tax expense	\$ (23)	\$ (5)	\$ (30)	\$ (18)
- deferred income tax expense	(42)	(132)	(252)	(173)
Remeasurements on equity investments				
- deferred income tax recovery	-	-	-	4
Income tax expense	\$ (65)	\$ (137)	\$ (282)	\$ (187)

7. SHARE CAPITAL

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

	September 30, 2021	December 31, 2020
Issued and outstanding		
Class A variable voting shares	86,007,150	111,926,060
Class B voting shares	271,741,909	220,246,228
Total issued and outstanding	357,749,059	332,172,288
Potentially issuable shares		
Convertible notes	48,687,441	48,687,441
Warrants ⁽¹⁾	14,576,564	-
Stock options	4,403,545	5,903,174
Total outstanding and potentially issuable shares	425,416,609	386,762,903

(1) Includes 7,288,282 non-vested warrants at September 30, 2021. Refer to Note 4 for details on vesting conditions.

Issuer Bid

In response to the COVID-19 pandemic, in early March 2020 Air Canada suspended share purchases under its normal course issuer bid. Air Canada's normal course issuer bid expired in May 2020 and Air Canada did not renew it.

Prior to suspending purchases under its normal course issuer bid, in the first quarter of 2020, the Corporation 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. The excess of the cost over the average book value of \$119 million was charged to Retained earnings.

Share Offering

In connection with Air Canada's December 2020 share offering, Air Canada granted the underwriters an option to purchase up to an additional 15% of the shares in the offering, exercisable in whole or in part at any time until 30 days after closing of the offering on December 30, 2020. In January 2021, the underwriters partially exercised their over-allotment option to purchase an additional 2,587,000 Air Canada shares for gross proceeds of \$62 million. After deduction of the underwriters' fees and expenses, net proceeds from the exercise of this over-allotment option were \$60 million.

As further described in Note 4, in April 2021, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada, including the issuance of shares and warrants. Air Canada issued 21,570,942 shares to the Government of Canada for net proceeds of \$480 million.

8. 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	
	2021	2020	2021	2020
Numerator:				
Net loss for the period	\$ (640)	\$ (685)	\$ (3,109)	\$ (3,486)
Effect of assumed conversion of convertible notes	(54)	(39)	184	15
Effect of assumed conversion of warrants	(16)	-	(25)	-
Remove anti-dilutive impact	70	39	(184)	(15)
Adjusted numerator for diluted loss per share	\$ (640)	\$ (685)	\$ (3,134)	\$ (3,486)
Denominator:				
Weighted-average shares	358	297	349	277
Effect of potential dilutive securities:				
Stock options	1	1	1	1
Warrants	-	-	-	-
Convertible notes	49	49	49	21
Remove anti-dilutive impact	(50)	(50)	(50)	(22)
Adjusted denominator for diluted loss per share	358	297	349	277
Basic loss per share	\$ (1.79)	\$ (2.31)	\$ (8.90)	\$ (12.58)
Diluted loss per share	\$ (1.79)	\$ (2.31)	\$ (8.97)	\$ (12.58)

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.

Excluded from the calculation of diluted loss per share were outstanding options and warrants where the exercise prices were greater than the average market price of the shares for the period.

9. 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, 2021. U.S. dollar amounts are converted using the September 30, 2021 closing rate of CDN\$1.2680. Minimum future commitments under these contractual arrangements are shown below.

(Canadian dollars in millions)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Capital commitments	\$ 400	\$ 1,077	\$ 517	\$ 122	\$ -	\$ -	\$ 2,116

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 17 to the 2020 annual consolidated financial statements for information on the Corporation's risk management strategy.

Summary of Gain (Loss) on Financial Instruments

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Share forward contracts	\$ (1)	\$ (1)	\$ 1	\$ (34)
Embedded derivative on convertible notes	101	47	(109)	6
Warrants Note 4	16	-	25	-
Financial assets measured at fair value	(2)	-	(31)	-
Gain (loss) on financial instruments	\$ 114	\$ 46	\$ (114)	\$ (28)

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, 2021, unrestricted liquidity was \$14,412 million comprised of \$9,473 million in Cash and cash equivalents, Short-term and Long-term investments, and \$4,939 million available under undrawn credit facilities, which amount includes \$3 million being drawn under the refunds credit facility for refunds paid up until September 30, 2021 (refer to Note 4).

In response to the COVID-19 pandemic, Air Canada has taken the following actions in 2021 to support its liquidity position:

- As described in Note 4, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada, which allows Air Canada to access up to \$5.379 billion in debt financing through fully repayable loans that Air Canada will only draw down if and as required, as well as an equity investment for gross proceeds of \$500 million (net proceeds of \$480 million). As at September 30, 2021, \$1,205 million has been drawn under the unsecured credit facility to support customer refunds of non-refundable tickets. No amount has been drawn on any of the other facilities with the Government of Canada. Air Canada is entitled to repay and terminate these facilities at any time without penalty.
- As described in Note 5, Air Canada received aggregate gross proceeds of approximately \$7.1 billion comprised of \$2.0 billion of senior secured notes due 2029, US\$1.2 billion of senior secured notes due 2026, a US\$2.3 billion new term loan B maturing in 2028, and a new undrawn US\$600 million revolving credit facility maturing in 2025.
- Revised the terms of its Capacity Purchase Agreement with Jazz Aviation LP. Through the revised agreement, Jazz has become the sole operator of Air Canada Express services. This realignment of regional services will help achieve efficiencies and reduce operating costs and cash burn by consolidating Air Canada's regional operations with one provider. In addition, the revised CPA will lower future contractual capital expenditure and leasing costs through a restructured CPA fleet.

- As described in Note 5, the Corporation extended its \$200 million revolving credit facility by one year.
- As described in Note 5, the Corporation refinanced the Series B Certificates of its 2013-1 EETC with a final expected distribution date of May 2025.

Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at September 30, 2021, as further described below, approximately 2% of net U.S. cash outflows are hedged for the remainder of 2021, 52% for 2022, and 29% for 2023, resulting in derivative coverage of 40% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 75% coverage over the next 18 months. This U.S. dollar coverage exceeds the Corporation's target coverage of 60%, which surplus is a result of increased U.S. dollar inflows from the August financing transaction described in Note 5. Target coverage was reduced to 60% on a rolling 18 month basis from 70% on a rolling 24 month basis due mainly to a lower relative risk exposure to international operations.

As at September 30, 2021, the Corporation had outstanding foreign currency options and swap agreements, settling in 2021, 2022, and 2023, to purchase at maturity \$2,168 million (US\$1,715 million) of U.S. dollars at a weighted average rate of \$1.2896 per US\$1.00 (as at December 31, 2020 – \$5,730 million (US\$4,499 million) with settlements in 2021 and 2022 at a weighted average rate of \$1.3586 per \$1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and YUAN (EUR €163 million, GBP £39 million, JPY ¥5,750 million, and CNH ¥61 million) which settle in 2021, 2022, and 2023 at weighted average rates of €1.1686, £1.4193, ¥0.0094, and ¥0.1471 per \$1.00 U.S. dollar respectively (as at December 31, 2020 - EUR €464 million, GBP £64 million, JPY ¥4,963 million, CNH ¥415 million and AUD \$88 million with settlement in 2021 and 2022 at weighted average rates of €1.1414, £1.3277, ¥0.0094, ¥0.1463, and \$0.6942 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, 2021 was \$308 million in favour of the counterparties (as at December 31, 2020 – \$591 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 2021, Foreign exchange gain (loss) related to these derivatives was \$87 million gain (\$106 million loss for the nine month period ended September 30, 2021; \$121 million loss and \$208 million loss for the three and nine month periods ended September 30, 2020). In the third quarter of 2021, foreign exchange derivative contracts cash settled with a net fair value of \$91 million in favour of the counterparties (\$389 million for the nine month period ended September 30, 2021 in favour of the counterparties; \$31 million in favour of the counterparties and \$13 million in favour of the Corporation for the three and nine month periods ended September 30, 2020).

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, 2021 amounted to \$2,552 million (US\$2,014 million) (\$1,747 million (US\$1,371 million) as at December 31, 2020). During the three months ended September 30, 2021, a gain of \$62 million (\$18 million gain for the nine month period ended September 30, 2021; \$43 million loss and \$13 million gain for the three and nine month periods ended September 30, 2020) 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.

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, 2021.

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 \$13,810 million compared to its carrying value of \$13,590 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 2020 annual consolidated financial statements. The fair value of warrants that were issued in April 2021 are measured using the Black-Scholes option valuation model. There were no transfers within the fair value hierarchy during the nine months ended September 30, 2021.

(Canadian dollars in millions)	September 30, 2021	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	\$ 665	\$ -	\$ 665	\$ -
Short-term investments	3,482	-	3,482	-
Long-term investments	771	-	771	-
Equity investment in Chorus	59	59	-	-
Derivative instruments				
Share forward contracts	15	-	15	-
Foreign exchange derivatives	1	-	1	-
Total	\$ 4,993	\$ 59	\$ 4,934	\$ -
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	309	-	309	-
Embedded derivative on convertible notes	643	-	643	-
Warrants	84	-	84	-
Total	\$ 1,036	\$ -	\$ 1,036	\$ -

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.

11. 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	
	2021	2020	2021	2020
Canada	\$ 771	\$ 316	\$ 1,276	\$ 1,378
U.S. Transborder	291	28	352	793
Atlantic	384	111	546	819
Pacific	112	30	163	440
Other	78	22	120	477
	\$ 1,636	\$ 507	\$ 2,457	\$ 3,907

Cargo Revenues (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Canada	\$ 30	\$ 24	\$ 79	\$ 61
U.S. Transborder	16	6	44	27
Atlantic	124	103	387	256
Pacific	168	72	426	255
Other	28	11	69	35
	\$ 366	\$ 216	\$ 1,005	\$ 634

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 refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific refers 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.