



Second Quarter 2022
INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes
August 2, 2022



A STAR ALLIANCE MEMBER 

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)	June 30, 2022	December 31, 2021
ASSETS		
Current		
Cash and cash equivalents	\$ 2,760	\$ 4,248
Short-term investments	5,929	4,554
Total cash, cash equivalents and short-term investments	8,689	8,802
Restricted cash	186	167
Accounts receivable	1,072	691
Aircraft fuel inventory	194	122
Spare parts and supplies inventory	107	102
Prepaid expenses and other current assets	322	169
Total current assets	10,570	10,053
Investments, deposits and other assets	1,105	858
Property and equipment	11,977	11,740
Pension assets	2,324	3,571
Deferred income tax	47	39
Intangible assets	1,068	1,080
Goodwill	3,273	3,273
Total assets	\$ 30,364	\$ 30,614
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,459	\$ 2,603
Advance ticket sales	4,618	2,326
Aeroplane and other deferred revenue	960	983
Current portion of long-term debt and lease liabilities	1,164	1,012
Total current liabilities	9,201	6,924
Long-term debt and lease liabilities	15,400	15,511
Aeroplane and other deferred revenue	3,518	3,656
Pension and other benefit liabilities	1,863	2,588
Maintenance provisions	1,178	1,032
Other long-term liabilities	589	821
Deferred income tax	73	73
Total liabilities	\$ 31,822	\$ 30,605
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	2,738	2,735
Contributed surplus	113	104
Accumulated other comprehensive loss	(46)	(45)
Deficit	(4,263)	(2,785)
Total shareholders' equity (deficiency)	(1,458)	9
Total liabilities and shareholders' equity (deficiency)	\$ 30,364	\$ 30,614

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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Operating revenues				
Passenger Note 10	\$ 3,441	\$ 426	\$ 5,358	\$ 821
Cargo Note 10	299	358	697	639
Other	241	53	499	106
Total revenues	3,981	837	6,554	1,566
Operating expenses				
Aircraft fuel	1,450	239	2,200	439
Wages, salaries and benefits	749	497	1,456	1,025
Regional airlines expense, excluding fuel	367	193	683	388
Depreciation and amortization	407	404	810	817
Aircraft maintenance Note 2	195	127	221	277
Airport and navigation fees	241	109	424	207
Sales and distribution costs	171	44	279	68
Ground package costs	102	1	231	6
Catering and onboard services	94	21	158	42
Communications and information technology	103	81	219	186
Special items Note 3	-	73	4	(54)
Other	355	181	672	347
Total operating expenses	4,234	1,970	7,357	3,748
Operating loss	(253)	(1,133)	(803)	(2,182)
Non-operating income (expense)				
Foreign exchange gain (loss)	(196)	(5)	(97)	62
Interest income	31	16	51	37
Interest expense Note 4	(216)	(164)	(425)	(341)
Interest capitalized	2	5	5	9
Net interest relating to employee benefits	4	(5)	8	(9)
Financial instruments recorded at fair value Note 9	287	(5)	114	(228)
Loss on debt settlements and modifications Note 4	-	-	-	(19)
Other	(11)	(7)	(19)	(14)
Total non-operating expense	(99)	(165)	(363)	(503)
Loss before income taxes	(352)	(1,298)	(1,166)	(2,685)
Income tax recovery (expense) Note 5	(34)	133	(194)	216
Net loss for the period	\$ (386)	\$ (1,165)	\$ (1,360)	\$ (2,469)
Net loss per share Note 7				
Basic loss per share	\$ (1.08)	\$ (3.28)	\$ (3.80)	\$ (7.16)
Diluted loss per share	\$ (1.60)	\$ (3.31)	\$ (3.80)	\$ (7.19)

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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Comprehensive income (loss)				
Net loss for the period	\$ (386)	\$ (1,165)	\$ (1,360)	\$ (2,469)
Other comprehensive income (loss), net of tax: <u>Note 5</u>				
Items that will not be reclassified to net income				
Remeasurements on employee benefit liabilities	93	326	(118)	730
Remeasurements on equity investments	(15)	3	(1)	16
Total comprehensive loss	\$ (308)	\$ (836)	\$ (1,479)	\$ (1,723)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

Unaudited (Canadian dollars in millions)	Share capital	Contributed surplus	Accumulated OCI	Deficit	Total shareholders' equity (deficiency)
January 1, 2021	\$ 2,150	\$ 98	\$ (39)	\$ (494)	\$ 1,715
Net loss	-	-	-	(2,469)	(2,469)
Remeasurements on employee benefit liabilities	-	-	-	730	730
Remeasurements on equity investments	-	-	16	-	16
Total comprehensive loss	-	-	16	(1,739)	(1,723)
Share-based compensation	-	7	-	-	7
Shares issued, net (Note 6)	584	(6)	-	-	578
June 30, 2021	\$ 2,734	\$ 99	\$ (23)	\$ (2,233)	\$ 577
January 1, 2022	\$ 2,735	\$ 104	\$ (45)	\$ (2,785)	\$ 9
Net loss	-	-	-	(1,360)	(1,360)
Remeasurements on employee benefit liabilities	-	-	-	(118)	(118)
Remeasurements on equity investments	-	-	(1)	-	(1)
Total comprehensive loss	-	-	(1)	(1,478)	(1,479)
Share-based compensation	-	10	-	-	10
Shares issued	3	(1)	-	-	2
June 30, 2022	\$ 2,738	\$ 113	\$ (46)	\$ (4,263)	\$ (1,458)

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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash flows from (used in)				
Operating				
Net loss for the period	\$ (386)	\$ (1,165)	\$ (1,360)	\$ (2,469)
Adjustments to reconcile to net cash from operations				
Deferred income tax	Note 5	23	(135)	170
Depreciation and amortization		407	404	810
Foreign exchange (gain) loss		180	(169)	66
Employee benefit funding less than expense		57	280	82
Financial instruments recorded at fair value	Note 9	(287)	5	(114)
Loss on debt settlements and modifications	Note 4	-	-	-
Change in maintenance provisions		12	(46)	32
Changes in non-cash working capital balances		1,011	(582)	1,738
Special items	Note 3	-	6	4
Other		60	25	(16)
Net cash flows from (used in) operating activities		1,077	(1,377)	1,412
Financing				
Proceeds from borrowings	Note 4	123	1,139	161
Reduction of long-term debt and lease liabilities	Note 4	(270)	(877)	(501)
Issue of shares	Note 6	1	480	2
Financing fees	Note 4	(1)	(4)	(1)
Net cash flows from (used in) financing activities		(147)	738	(339)
Investing				
Investments, short-term and long-term		(698)	356	(1,670)
Additions to property, equipment and intangible assets		(636)	(266)	(912)
Proceeds from sale of assets		2	6	5
Proceeds from sale and leaseback of assets		-	5	-
Other		9	(11)	(2)
Net cash flows from (used in) investing activities		(1,323)	90	(2,579)
Effect of exchange rate changes on cash and cash equivalents		7	(19)	18
Decrease in cash and cash equivalents		(386)	(568)	(1,488)
Cash and cash equivalents, beginning of period		3,146	3,278	4,248
Cash and cash equivalents, end of period		\$ 2,760	\$ 2,710	\$ 2,760
Cash payments of interest	Note 4	\$ 112	\$ 150	\$ 337
Cash payments of income taxes		\$ 14	\$ 10	\$ 64

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 six months ended June 30, 2022 are not necessarily indicative of financial results for the entire year due to several factors, including the impact of the COVID-19 pandemic and its impact on the ongoing recovery, seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, geopolitical, health, economic and other factors.



2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting". In accordance with GAAP, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2021. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2021 annual consolidated financial statements.

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

These financial statements were approved for issue by the Board of Directors of the Corporation on August 1, 2022.

3. SPECIAL ITEMS

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

Special items recorded within operating expenses consist of the following:

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Impairments	\$ -	\$ 6	\$ 4	\$ 26
Government wage subsidy, net	-	(158)	-	(321)
Workforce reduction provisions	-	157	-	159
Benefit plan amendments	-	68	-	68
Other	-	-	-	14
Special items	\$ -	\$ 73	\$ 4	\$ (54)

Impairments

In the first six months of 2021, an impairment charge of \$26 million was recorded as a result of reductions to the estimates around the expected disposal proceeds on owned aircraft, partially offset by lower-than-expected costs to meet contractual return conditions on lease returns. An impairment charge of \$4 million was recorded in the first six months of 2022 related to the return of leased aircraft. Further changes to these estimates may result in additional adjustments to the impairment charge in future periods.

Government wage subsidy

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

No wage subsidy was recorded in the first half of 2022 as the Corporation no longer qualified under the amended/new programs (gross subsidy of \$160 million in the second quarter of 2021; \$158 million net of costs; gross subsidy of \$326 million for the six months ended June 30, 2021; \$321 million net of costs;). Cash payments of \$146 million were received in the second quarter of 2021 (\$302 million for the six months ended June 30, 2021).

Workforce reduction provisions

As a result of the COVID-19 pandemic and to mitigate the number of employees who were on layoff status, during the second quarter of 2021, Air Canada offered early retirement incentive programs to its unionized workforce. These programs provided for pension improvements which were payable from the defined benefit pension plan for eligible employees, and as such did not impact the Corporation's liquidity position. Termination benefits and a curtailment loss of \$157 million were recorded during the second quarter of 2021 as a special item.

Benefit plan amendments

In April 2021, Air Canada received the decision of the arbitrator determining the cap on pensionable earnings recognized in the defined benefit pension plan for IAMAW-represented technical employees. The decision resulted in an increase to the maximum pensionable earnings, effective from 2021. 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. The period of retroactivity was resolved in the latter half of 2021, with retroactivity to 2019 for employees that so elected with an additional \$14 million recorded in 2021 as a special item. This amendment did not impact the Corporation's liquidity position as it is funded out of the surplus in the domestic registered pension plans.

OtherTermination of the Transat Arrangement Agreement

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

Amendments to Capacity Purchase Agreements

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

4. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	June 30, 2022 (Canadian dollars in millions)	December 31, 2021 (Canadian dollars in millions)
Aircraft financing				
Fixed rate U.S. dollar financing	2023 – 2030	4.90	\$ 3,386	\$ 3,471
Floating rate U.S. dollar financing	2026 – 2027	3.80	408	427
Fixed rate CDN dollar financing	2026 – 2030	3.78	194	206
Floating rate CDN dollar financing	2026 – 2033	4.07	1,268	1,169
Fixed rate Japanese yen financing	2027	1.84	111	129
Floating rate Japanese yen financing			-	2
Convertible notes	2025	4.00	771	723
Credit facility – CDN dollar	2028	1.21	1,036	1,018
Senior secured notes – CDN dollar	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar	2026	3.88	1,545	1,516
Senior secured credit facility – U.S. dollar	2028	4.25	2,961	2,907
Long-term debt		4.12	13,680	13,568
Lease liabilities				
Air Canada aircraft	2022 – 2031	5.01	1,740	1,792
Regional aircraft	2023 – 2035	6.00	955	981
Land and buildings	2022 – 2078	5.28	394	406
Lease liabilities		5.35	3,089	3,179
Total debt and lease liabilities		4.35	16,769	16,747
Unamortized debt issuance costs and discounts			(205)	(224)
Current portion – Long-term debt			(647)	(511)
Current portion – Air Canada aircraft			(318)	(310)
Current portion – Regional aircraft			(175)	(166)
Current portion – Land and buildings			(24)	(25)
Long-term debt and lease liabilities			\$ 15,400	\$ 15,511

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

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

In February 2021, the Corporation extended its US\$600 million revolving credit facility by one year to April 2024 and increased the interest rate by 75 basis points, to an interest rate margin of 250 basis points over LIBOR. The Corporation had also extended its \$200 million revolving credit facility by one year to December 2023 and increased the interest rate by 25 basis points, to an interest rate margin of 275 basis points over banker's acceptance rates. The Corporation recorded a \$19 million loss on debt modification related to this in the first quarter of 2021. The US\$600 million revolving credit facility was repaid in August 2021 in connection with the financing described in Note 10(d) to the 2021 annual consolidated financial statements of the Corporation and the \$200 million revolving credit facility was repaid in August 2021. Following subsequent agreements that occurred in 2021, the US\$600 million revolving credit facility matures in 2025 and the \$200 million revolving credit facility matures in 2024.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Interest on debt	\$ 177	\$ 121	\$ 346	\$ 252
Interest on lease liabilities				
Air Canada aircraft	20	23	41	47
Regional aircraft	14	15	28	32
Land and buildings	5	5	10	10
Interest expense	\$ 216	\$ 164	\$ 425	\$ 341

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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Short-term leases	\$ 4	\$ (3)	\$ 9	\$ 1
Variable lease payments not included in lease liabilities	10	7	18	14
Expense related to leases (included in Other operating expenses)	\$ 14	\$ 4	\$ 27	\$ 15

Total cash outflows for payments on lease liabilities was \$168 million for the three months ended June 30, 2022 (\$329 million for the six months ended June 30, 2022; \$183 million and \$373 million respectively for the three- and six-month periods ended June 30, 2021), of which \$129 million was for principal repayments (\$250 million for the six months ended June 30, 2022; \$140 million and \$284 million for the three- and six-month periods ended June 30, 2021).

Maturity Analysis

Principal and interest repayment requirements as at June 30, 2022 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the June 30, 2022 closing rate of CDN\$1.2873.

Principal (Canadian dollars in millions)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 273	\$ 682	\$ 503	\$ 1,826	\$ 2,426	\$ 8,398	\$ 14,108
Air Canada aircraft	161	316	307	292	243	421	1,740
Regional aircraft	88	174	145	132	48	368	955
Land and buildings	13	23	23	24	23	288	394
Lease liabilities	\$ 262	\$ 513	\$ 475	\$ 448	\$ 314	\$ 1,077	\$ 3,089
Total long-term debt and lease liabilities	\$ 535	\$ 1,195	\$ 978	\$ 2,274	\$ 2,740	\$ 9,475	\$ 17,197

Interest (Canadian dollars in millions)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 288	\$ 553	\$ 529	\$ 500	\$ 417	\$ 710	\$ 2,997
Air Canada aircraft	41	71	57	42	29	31	271
Regional aircraft	27	45	34	25	20	87	238
Land and buildings	10	19	18	17	16	193	273
Lease liabilities	\$ 78	\$ 135	\$ 109	\$ 84	\$ 65	\$ 311	\$ 782
Total long-term debt and lease liabilities	\$ 366	\$ 688	\$ 638	\$ 584	\$ 482	\$ 1,021	\$ 3,779

(1) Assumes the principal balance of the convertible notes, \$962 million (US\$748 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 \$205 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			Jun. 30, 2022
	Mar. 31, 2022	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 13,417	\$ 123	\$ (141)	\$ -	\$ 257	\$ 24	\$ -	\$ 13,680
Air Canada aircraft	1,696	-	(78)	-	52	-	70	1,740
Regional aircraft	945	-	(45)	-	28	-	27	955
Land and buildings	400	-	(6)	-	-	-	-	394
Lease liabilities	3,041	-	(129)	-	80	-	97	3,089
Unamortized debt issuance costs	(215)	-	-	(1)	-	11	-	(205)
Total liabilities from financing activities	\$ 16,243	\$ 123	\$ (270)	\$ (1)	\$ 337	\$ 35	\$ 97	\$ 16,564

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Jun. 30, 2022
	Dec. 31, 2021	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 13,568	\$ 161	\$ (251)	\$ -	\$ 153	\$ 49	\$ -	\$ 13,680
Air Canada aircraft	1,792	-	(153)	-	35	-	66	1,740
Regional aircraft	981	-	(85)	-	18	-	41	955
Land and buildings	406	-	(12)	-	(1)	-	1	394
Lease liabilities	3,179	-	(250)	-	52	-	108	3,089
Unamortized debt issuance costs	(224)	-	-	(1)	-	20	-	(205)
Total liabilities from financing activities	\$ 16,523	\$ 161	\$ (501)	\$ (1)	\$ 205	\$ 69	\$ 108	\$ 16,564

5. INCOME TAXES

Income Tax Recovery (Expense)

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

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Current income tax (expense) recovery	\$ (11)	\$ (2)	\$ (24)	\$ (3)
Deferred income tax (expense) recovery	(23)	135	(170)	219
Income tax recovery (expense)	\$ (34)	\$ 133	\$ (194)	\$ 216

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

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

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Remeasurements on employee benefit liabilities				
- current income tax (expense) recovery	\$ (1)	\$ (3)	\$ (3)	\$ (7)
- deferred income tax (expense) recovery	25	(130)	178	(210)
Income tax recovery (expense)	\$ 24	\$ (133)	\$ 175	\$ (217)

6. SHARE CAPITAL

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

	June 30, 2022	December 31, 2021
Issued and outstanding		
Class A variable voting shares	63,808,709	82,897,507
Class B voting shares	294,159,444	274,944,350
Total issued and outstanding	357,968,153	357,841,857
Potential shares		
Convertible notes	48,687,441	48,687,441
Warrants	-	7,288,282
Stock options	5,470,390	4,330,993
Total outstanding and potentially issuable shares	412,125,984	418,148,573

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

7. LOSS PER SHARE

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

(in millions, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Numerator:				
Net loss for the period:	\$ (386)	\$ (1,165)	\$ (1,360)	\$ (2,469)
Effect of assumed conversion of convertible notes	(266)	37	(125)	238
Effect of assumed conversion of warrants	-	(9)	-	(9)
Remove anti-dilutive impact	-	(37)	125	(238)
Adjusted numerator for diluted loss per share:	(652)	(1,174)	(1,360)	(2,478)
Denominator:				
Weighted-average shares	358	355	358	345
Effect of potential dilutive securities:				
Stock options	-	1	-	1
Convertible notes	49	49	49	49
Warrants	-	-	-	-
Remove anti-dilutive impact	-	(50)	(49)	(50)
Adjusted denominator for diluted loss per share	407	355	358	345
Basic loss per share	\$ (1.08)	\$ (3.28)	\$ (3.80)	\$ (7.16)
Diluted loss per share	\$ (1.60)	\$ (3.31)	\$ (3.80)	\$ (7.19)

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

8. COMMITMENTS

Capital Commitments

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at June 30, 2022. U.S. dollar amounts are converted using the June 30, 2022 closing rate of CDN\$1.2873. Minimum future commitments under these contractual arrangements are shown below. They include the acquisition of 30 Airbus A321XLR aircraft, which Air Canada announced in 2022. Deliveries are to begin in 2024 with the final aircraft to arrive in 2027. The acquisitions include 20 aircraft leased with lessors and 10 to be purchased under an agreement with Airbus S.A.S. The amounts related to the periodic lease payments on the 20 leases is included for the periods noted. Also finalized in 2022 and included below, is the purchase of two new Boeing 777 freighter aircraft with deliveries expected in 2024.

(Canadian dollars in millions)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Capital commitments	\$ 632	\$ 797	\$ 874	\$ 626	\$ 629	\$ 2,245	\$ 5,803

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Summary of financial instruments recorded at fair value

(Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Embedded derivative on convertible notes	\$ 321	\$ (23)	\$ 196	\$ (210)
Short-term investments	(32)	10	(81)	(29)
Warrants	-	9	-	9
Share forward contracts	(2)	(1)	(1)	2
Gain (loss) on financial instruments recorded at fair value	\$ 287	\$ (5)	\$ 114	\$ (228)

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 June 30, 2022, unrestricted liquidity was \$10,508 million comprised of Cash and cash equivalents, Short-term and Long-term investments of \$9,536 million, and \$972 million available under undrawn credit facilities.

Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at June 30, 2022, as further described below, approximately 62% of net U.S. cash outflows are hedged for the remainder of 2022 and 51% for 2023, resulting in derivative coverage of 55% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage over the next 18 months.

As at June 30, 2022, the Corporation had outstanding foreign currency options and swap agreements, settling in 2022 and 2023, to purchase at maturity \$4,401 million (US\$3,428 million) of U.S. dollars at a weighted average rate of \$1.2646 per US\$1.00 (as at December 31, 2021 – \$2,423 million (US\$1,925 million) with settlements in 2022 and 2023 at a weighted average rate of \$1.2742 per \$1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €137 million, GBP £127 million, JPY ¥9,211 million, and AUD \$110 million) which settle in 2022 and 2023 at weighted average rates of €1.1178, £1.3102, ¥0.0087, and \$0.7577 per \$1.00 U.S. dollar respectively (as at December 31, 2021 - EUR €260million, GBP £56 million, JPY ¥4,577 million, CNH ¥31 million and AUD \$36 million with settlement in 2022 and 2023 at weighted average rates of €1.1704, £1.4125, ¥0.0092, ¥0.1471, and \$0.7300 respectively per \$1.00 U.S. dollar).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at June 30, 2022 was \$125 million in favour of the counterparties (as at December 31, 2021 – \$268 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded



at fair value. During the second quarter of 2022, foreign exchange gain (loss) related to these derivatives was \$177 million gain (\$138 million gain for the six month period ended June 30, 2022; \$120 million loss and \$193 million loss respectively for the three and six month periods ended June 30, 2021). In the second quarter of 2022, foreign exchange derivative contracts cash settled with a net fair value of \$6 million in favour of the Corporation (\$4 million in favour of the counterparties for the six month period ended June 30, 2022; \$177 million and \$298 million in favour of the counterparties respectively for the three- and six-month periods ended June 30, 2021).

The Corporation also holds U.S. cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash and short-term investment balances as at June 30, 2022 amounted to \$1,079 million (US\$839 million) (\$1,403 million (US\$1,110 million) as at December 31, 2021). During the three months ended June 30, 2022, a gain of \$28 million (\$30 million gain for the six month period ended June 30, 2022; \$23 million loss and \$44 million loss respectively for the three- and six-month periods ended June 30, 2021) was recorded in foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short-term and long-term investment balances held.

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

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

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

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Corporation based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt is \$13,020 million compared to its carrying value of \$13,680 million.

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

	June 30, 2022	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(Canadian dollars in millions)				
Financial Assets				
Held-for-trading securities				
Cash equivalents	\$ 432	\$ -	\$ 432	\$ -
Short-term investments	5,929	-	5,929	-
Long-term investments	847	-	847	-
Equity investment in Chorus	51	51	-	-
Derivative instruments				
Share forward contracts	5	-	5	-
Foreign exchange derivatives	25	-	25	-
Total	\$ 7,289	\$ 51	\$ 7,238	\$ -
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	150	-	150	-
Embedded derivative on convertible notes	383	-	383	-
Total	\$ 533	\$ -	\$ 533	\$ -

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.

10. GEOGRAPHIC INFORMATION

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

Passenger Revenues (Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Canada	\$ 1,115	\$ 268	\$ 1,763	\$ 505
U.S. Transborder	761	32	1,186	61
Atlantic	1,051	75	1,515	162
Pacific	226	35	324	51
Other	288	16	570	42
	\$ 3,441	\$ 426	\$ 5,358	\$ 821

Cargo Revenues (Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Canada	\$ 28	\$ 25	\$ 58	\$ 49
U.S. Transborder	10	17	23	28
Atlantic	146	144	270	263
Pacific	79	150	273	258
Other	36	22	73	41
	\$ 299	\$ 358	\$ 697	\$ 639

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.