



Third Quarter 2024

INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes



November 1, 2024

 **AIR CANADA**

A STAR ALLIANCE MEMBER 

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)	September 30, 2024	December 31, 2023
ASSETS		
Current		
Cash and cash equivalents	\$ 3,393	\$ 2,817
Short-term investments	4,987	5,734
Total cash, cash equivalents and short-term investments	8,380	8,551
Accounts receivable	1,176	1,121
Aircraft fuel inventory	176	169
Spare parts and supplies inventory	187	168
Prepaid expenses and other current assets	339	251
Total current assets	10,258	10,260
Investments, deposits and other assets	858	1,009
Property and equipment	12,332	11,933
Pension assets	2,542	2,588
Deferred income tax	Notes 3 & 6 1,110	50
Intangible assets	1,123	1,084
Goodwill	3,273	3,273
Total assets	\$ 31,496	\$ 30,197
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,509	\$ 3,328
Advance ticket sales	4,487	4,341
Aeroplane and other deferred revenue	1,478	1,473
Current portion of long-term debt and lease liabilities	Note 5 1,652	866
Total current liabilities	11,126	10,008
Long-term debt and lease liabilities	Note 5 10,716	12,996
Aeroplane and other deferred revenue	3,016	2,989
Pension and other benefit liabilities	1,843	1,875
Maintenance provisions	1,459	1,227
Other long-term liabilities	171	233
Deferred income tax	Notes 3 & 6 73	73
Total liabilities	\$ 28,404	\$ 29,401
SHAREHOLDERS' EQUITY		
Share capital	2,766	2,744
Contributed surplus	146	133
Hedging reserve	(29)	—
Accumulated other comprehensive loss	(52)	(57)
Retained earnings (deficit)	261	(2,024)
Total shareholders' equity	3,092	796
Total liabilities and shareholders' equity	\$ 31,496	\$ 30,197

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	
		2024	2023	2024	2023
Operating revenues					
Passenger	Note 10	\$ 5,601	\$ 5,861	\$ 15,034	\$ 14,850
Cargo	Note 10	253	215	698	680
Other		252	268	1,119	1,128
Total revenues		6,106	6,344	16,851	16,658
Operating expenses					
Aircraft fuel		1,377	1,365	3,964	3,927
Wages, salaries and benefits	Note 4	1,021	995	3,200	2,880
Depreciation and amortization		449	415	1,339	1,261
Airport and navigation fees		410	392	1,130	1,068
Aircraft maintenance		226	236	876	772
Sales and distribution costs		290	307	825	844
Capacity purchase fees		219	218	644	635
Ground package costs		102	99	574	543
Communications and information technology		156	141	487	415
Catering and onboard services		174	181	483	467
Other	Note 3	642	580	1,812	1,646
Total operating expenses		5,066	4,929	15,334	14,458
Operating income		1,040	1,415	1,517	2,200
Non-operating income (expense)					
Foreign exchange gain (loss)		(85)	(61)	(28)	317
Interest income		114	118	336	307
Interest expense	Note 5	(180)	(236)	(579)	(722)
Interest capitalized		9	(2)	24	9
Financial instruments recorded at fair value	Note 9	26	101	66	24
Loss on debt settlements	Note 5	—	(7)	(46)	(9)
Other		(27)	(11)	(54)	(36)
Total non-operating expense		(143)	(98)	(281)	(110)
Income before income taxes		897	1,317	1,236	2,090
Income tax recovery (expense)	Note 6	1,138	(67)	1,128	2
Net income for the period		\$ 2,035	\$ 1,250	\$ 2,364	\$ 2,092
Net income per share	Note 7				
Basic earnings per share		\$ 5.68	\$ 3.49	\$ 6.60	\$ 5.84
Diluted earnings per share		\$ 5.38	\$ 3.08	\$ 6.25	\$ 5.55

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Comprehensive income (loss)				
Net income for the period	\$ 2,035	\$ 1,250	\$ 2,364	\$ 2,092
Other comprehensive income (loss), net of tax: Note 6				
Items that will not be reclassified to net income				
Remeasurements on net employee benefits	(130)	(114)	(98)	14
Remeasurements on equity investments	7	(11)	5	(14)
Items that will be reclassified to net income				
Fuel derivatives designated as cash flow hedges	(29)	3	(29)	-
Total comprehensive income	\$ 1,883	\$ 1,128	\$ 2,242	\$ 2,092

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (Canadian dollars in millions)	Share capital	Contributed surplus	Hedging reserve	Accumulated OCI	Retained earnings (deficit)	Total shareholders' equity (deficiency)
January 1, 2023	\$ 2,743	\$ 118	-	\$ (46)	\$ (4,370)	\$ (1,555)
Net income	-	-	-	-	2,092	2,092
Remeasurements on net employee benefits	-	-	-	-	14	14
Remeasurements on equity investments	-	-	-	(14)	-	(14)
Total comprehensive income (loss)	-	-	-	(14)	2,106	2,092
Share-based compensation	-	12	-	-	-	12
Shares issued	1	-	-	-	-	1
September 30, 2023	\$ 2,744	\$ 130	-	\$ (60)	\$ (2,264)	\$ 550
January 1, 2024	\$ 2,744	\$ 133	-	\$ (57)	\$ (2,024)	\$ 796
Net income	-	-	-	-	2,364	2,364
Remeasurements on net employee benefits	-	-	-	-	(98)	(98)
Remeasurements on equity investments	-	-	-	5	-	5
Fuel derivatives designated as cash flow hedges	-	-	(29)	-	-	(29)
Total comprehensive income (loss)	-	-	(29)	5	2,266	2,242
Share-based compensation	-	13	-	-	-	13
Deferred income tax recognition (Note 6)	22	-	-	-	19	41
September 30, 2024	\$ 2,766	\$ 146	(29)	\$ (52)	\$ 261	\$ 3,092

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	
	2024	2023	2024	2023
Cash flows from (used in)				
Operating				
Net income for the period	\$ 2,035	\$ 1,250	\$ 2,364	\$ 2,092
Adjustments to reconcile to net cash from operations				
Deferred income tax	Note 6	(1,158)	73	(1,152)
Depreciation and amortization		449	415	1,339
Foreign exchange (gain) loss		143	95	207
Employee benefit funding less than expense		20	11	56
Financial instruments recorded at fair value	Note 9	(26)	(79)	(66)
Loss on debt settlements	Note 5	-	7	46
Change in maintenance provisions		62	55	168
Changes in non-cash working capital balances		(774)	(1,368)	289
Other		(14)	2	(71)
Net cash flows from operating activities		737	408	3,253
Financing				
Proceeds from borrowings	Note 5	-	-	1,590
Repayment of long-term debt and lease liabilities	Note 5	(217)	(808)	(3,716)
Issue of shares		-	-	1
Financing fees	Note 5	-	(1)	(1)
Net cash flows used in financing activities		(217)	(809)	(2,157)
Investing				
Short-term investments, net		(49)	99	250
Disposals of long-term investments		483	321	1,621
Purchase of long-term investments		(121)	(214)	(918)
Additions to property, equipment and intangible assets		(455)	(273)	(1,464)
Other		2	(4)	(7)
Net cash flows used in investing activities		(140)	(71)	(518)
Effect of exchange rate changes on cash and cash equivalents		(8)	6	(2)
Increase (decrease) in cash and cash equivalents		372	(466)	576
Cash and cash equivalents, beginning of period		3,021	2,926	2,817
Cash and cash equivalents, end of period		\$ 3,393	\$ 2,460	\$ 3,393
Cash payments of interest	Note 5	\$ 205	\$ 255	\$ 587
Cash payments (recovery) of income taxes		\$ (40)	\$ 2	\$ (38)

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

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

1. GENERAL INFORMATION

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

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

The Corporation has historically experienced greater demand for its services in the second and third quarters of the calendar year, primarily due to the high number of leisure travellers and their preference for travel during the spring and summer months. The financial results for the nine months ended September 30, 2024 are not necessarily indicative of financial results for the entire year.

2. BASIS OF PRESENTATION AND SUMMARY OF MATERIAL 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 as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). 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, 2023. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These financial statements were approved for issue by the Board of Directors of the Corporation on October 31, 2024.

Certain comparative figures on the statement of cash flow related to investing activities have been reclassified to conform to the financial statement presentation adopted for the current year.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2023 annual consolidated financial statements except as otherwise described below.

Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

In October 2022, the IASB published amendments to the Classification of Liabilities as Current or Non-current in IAS 1 Presentation of Financial Statements. The amendments aim to improve the information companies provide when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2024. The Corporation adopted this amendment in the first quarter of 2024 with no impact to the Corporation’s consolidated statement of financial position.

IAS 12 Income Taxes

In May 2023, the IASB issued an amendment to IAS 12. The amendment addresses accounting for the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation for Economic Co-operation and Development. The objective of the tax reform is to ensure that large multinational enterprises are subject to a minimum income tax rate of 15% in each jurisdiction they operate. The amendment to IAS 12 includes temporary mandatory relief from recognizing and disclosing deferred taxes related to the implementation of Pillar Two global minimum tax rules.

In June 2024, the Global Minimum Tax Act was enacted in Canada which is a jurisdiction where the Corporation has a constituent entity for the purposes of Pillar Two. The Corporation adopted the amendments to IAS 12 in the second

quarter of 2024 and applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. This exception has been applied retrospectively but no adjustments to previously reported figures were required and it had no impact for the nine month period ended September 30, 2024.

Accounting standards and amendments issued but not yet effective

The following accounting standard and amendments to accounting standards issued by the IASB have not yet been adopted by the Corporation.

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements but carries forward many of the requirements from IAS 1. The standard introduces new defined subtotals to be presented in the consolidated statements of operations, disclosure of management-defined performance measures related to the income statement and requirements for grouping of information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with earlier adoption permitted. The Corporation is evaluating the impact of this standard on its consolidated financial statements.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The narrow scope amendments clarify classification guidance for financial assets with environmental, social and corporate governance features; and clarify the date on which a financial asset or financial liability is derecognized when using electronic payment systems. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted. The Corporation is evaluating the impact of these amendments on its consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

As described in Note 3 to the 2023 annual consolidated financial statements of the Corporation, the preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and associated assumptions are based on historical experience, future operating plans and various other factors believed to be reasonable under the circumstances, and the results of such estimates form the basis of judgments about carrying values of assets and liabilities. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

In the third quarter of 2024, estimates and judgements in the following areas were updated.

Income Taxes

Since 2020, the net deferred income tax assets related to unused tax losses and other deductible temporary differences have not been recognized. As a result of the COVID-19 pandemic, there was considerable negative evidence relating to losses that were incurred at that time and assumptions as to the timing of reversal of temporary differences including expectations about the future results of operations and future cash flows.

As described in Note 11 to the 2023 annual consolidated financial statements, the Corporation has temporary differences and tax loss carryforwards for which no deferred income tax assets had previously been recognized. During the third quarter of 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Refer to Note 6 Income taxes for additional information on the recognition of deferred income tax assets at September 30, 2024.

Provisions

A charge of \$34 million was recorded in the third quarter of 2024 in other operating expenses related to estimated costs related to contractual lease obligations.

4. LABOUR AGREEMENT

In September 2024, Air Canada concluded a four-year collective agreement with the Air Line Pilots Association (ALPA). The agreement which is effective as of September 30, 2023 was ratified in October 2024. In the third quarter of 2024, the provision for wages was updated in keeping with the terms of the agreement and retroactivity of wage increases effective from September 30, 2023.

With the ratification of the collective agreement, the impact of the amendments to the defined benefit pension plans will be recognized in the fourth quarter of 2024. The Corporation will be recording a one-time pension past service cost of approximately \$500 million as a result of the plan amendments. Certain of these plan amendments are conditional on future pension solvency surplus positions. Changes in assumptions associated with these conditional increases will be recognized in other comprehensive income as actuarial gains and losses. These amendments will be funded out of the surplus in the Pilots' domestic registered pension plan and are not expected to impact the Corporation's liquidity position.

5. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	September 30, 2024 (Canadian dollars in millions)	December 31, 2023 (Canadian dollars in millions)
Aircraft financing				
Fixed rate U.S. dollar financing	2025 – 2030	5.06	\$ 2,832	\$ 2,877
Floating rate U.S. dollar financing	2027	7.07	258	296
Fixed rate CDN dollar financing	2026 – 2030	3.78	155	165
Fixed rate Japanese yen financing	2027	1.84	111	110
Convertible notes	2025	4.00	352	327
Credit facility – CDN dollar	2028	1.21	1,120	1,091
Senior secured notes – CDN dollar	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar	2026	3.88	1,623	1,589
Senior secured credit facility – U.S. dollar	2031	7.25	1,581	3,000
Long-term debt		4.66	10,032	11,455
Lease liabilities				
Air Canada aircraft	2025 – 2036	5.62	1,374	1,377
Regional aircraft	2025 – 2035	5.57	619	711
Land and buildings	2024 – 2078	5.68	436	449
Lease liabilities		5.62	2,429	2,537
Total debt and lease liabilities		4.84	12,461	13,992
Unamortized debt issuance costs and discounts			(93)	(130)
			12,368	13,862
Current portion – Long-term debt			(1,080)	(359)
Current portion – Air Canada aircraft			(398)	(337)
Current portion – Regional aircraft			(147)	(144)
Current portion – Land and buildings			(27)	(26)
Total current portion			(1,652)	(866)
Long-term debt and lease liabilities			\$ 10,716	\$ 12,996

The above table provides terms of instruments disclosed in Note 8 to the 2023 annual consolidated financial statements of the Corporation as well as financing activities concluded during the nine months ended September 30, 2024 and described below.

In March 2024, Air Canada entered into US\$2.15 billion senior secured credit facilities, comprised of a US\$1.175 billion term loan B maturing in 2031 and a US\$975 million revolving credit facility maturing in 2029. The aggregate gross proceeds of the new term loan, together with cash from Air Canada's balance sheet of US\$1.09 billion, were applied to refinance all of Air Canada's indebtedness outstanding under its previous US\$2.265 billion term loan B maturing in 2028. The new term loan bears interest at SOFR (Secured Overnight Financing Rate) plus 250 basis points. The new revolving facility, which is the result of an increase and extension of Air Canada's previous US\$600 million revolving credit facility previously maturing in 2025, is undrawn as of September 30, 2024. Concurrently with the closing of these new senior credit facilities, Air Canada also terminated its undrawn \$200 million revolving credit facility maturing in 2026. The Corporation recorded a loss of \$46 million on debt settlements related to the write-off of unamortized debt issuance costs associated with the extinguished debt instruments.

Air Canada's obligations under the new senior credit facilities are senior secured obligations of Air Canada, secured on a first-lien basis, subject to certain permitted liens and exclusions, by certain collateral comprised of substantially all of Air Canada's international routes, airport slots and gate leaseholds.

In the second quarter of 2023, the Corporation prepaid loans of \$650 million which had been used to finance the acquisition of 19 Airbus A220-300 aircraft. In the third quarter of 2023, the Corporation prepaid loans of \$462 million previously used to fund its acquisition of 14 Airbus A220-300 aircraft. Financing of \$127 million previously used to fund the acquisition of four Boeing 787-8 aircraft was also prepaid. A loss of \$9 million was recorded on these debt settlements.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Interest on debt	\$ 144	\$ 199	\$ 473	\$ 606
Interest on lease liabilities				
Air Canada aircraft	21	21	60	64
Regional aircraft	9	11	28	35
Land and buildings	6	5	18	17
Interest expense	\$ 180	\$ 236	\$ 579	\$ 722

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	
	2024	2023	2024	2023
Short-term leases	\$ 5	\$ 11	\$ 13	\$ 21
Variable lease payments not included in lease liabilities	17	10	48	31
Expense related to leases (included in Other operating expenses)	\$ 22	\$ 21	\$ 61	\$ 52

Total cash outflows for payments on lease liabilities was \$171 million for the three months ended September 30, 2024 (\$503 million for the nine months ended September 30, 2024; \$164 million and \$514 million respectively for the three- and nine-month periods ended September 30, 2023), of which \$135 million was for principal repayments (\$397 million for the nine months ended September 30, 2024; \$127 million and \$398 million for the three and nine-month periods ended September 30, 2023).

Maturity Analysis

Principal and interest repayment requirements as at September 30, 2024 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the September 30, 2024 closing rate of CDN\$1.3525.

Principal (Canadian dollars in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 99	1,107	2,379	1,046	1,371	4,202	10,204
Air Canada aircraft	95	391	327	240	162	159	1,374
Regional aircraft	39	141	51	41	40	307	619
Land and buildings	7	28	28	28	28	317	436
Lease liabilities	\$ 141	560	406	309	230	783	2,429
Total long-term debt and lease liabilities	\$ 240	1,667	2,785	1,355	1,601	4,985	12,633

Interest (Canadian dollars in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 71	447	390	296	237	367	1,808
Air Canada aircraft	22	72	52	35	23	19	223
Regional aircraft	8	27	21	18	16	56	146
Land and buildings	6	23	21	20	18	222	310
Lease liabilities	\$ 36	122	94	73	57	297	679
Total long-term debt and lease liabilities	\$ 107	569	484	369	294	664	2,487

(1) Assumes the principal balance of the convertible notes, \$371 million (US\$274 million) remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility accessed in 2021 to support customers refunds of non-refundable tickets is included.

Principal repayments in the table above exclude discounts and transaction costs of \$93 million, which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.

Cash flows from financing activities

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

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Sept. 30, 2024
	June 30, 2024	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 10,077	\$ -	\$ (82)	\$ -	\$ (63)	\$ 100	\$ -	\$ 10,032
Air Canada aircraft	1,395	-	(92)	-	(15)	-	86	1,374
Regional aircraft	663	-	(37)	-	(7)	-	-	619
Land and buildings	442	-	(6)	-	-	-	-	436
Lease liabilities	2,500	-	(135)	-	(22)	-	86	2,429
Unamortized debt issuance costs	(100)	-	-	-	-	7	-	(93)
Total liabilities from financing activities	\$ 12,477	\$ -	\$ (217)	\$ -	\$ (85)	\$ 107	\$ 86	\$ 12,368

(Canadian dollars in millions)	Cash Flows				Non-Cash Changes			Sept. 30, 2024
	Jan. 1, 2024	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	\$ 11,455	\$ 1,590	\$ (3,319)	\$ -	\$ 175	\$ 131	\$ -	\$ 10,032
Air Canada aircraft	1,377	-	(270)	-	29	-	238	1,374
Regional aircraft	711	-	(108)	-	16	-	-	619
Land and buildings	449	-	(19)	-	1	-	5	436
Lease liabilities	2,537	-	(397)	-	46	-	243	2,429
Unamortized debt issuance costs	(130)	-	-	(31)	-	68	-	(93)
Total liabilities from financing activities	\$ 13,862	\$ 1,590	\$ (3,716)	\$ (31)	\$ 221	\$ 199	\$ 243	\$ 12,368

6. INCOME TAXES

Income Tax Recovery (Expense)

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, among other aspects, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

In this regard and in connection with the preparation of the financial statements for the period ended September 30, 2024, Air Canada determined that it was probable that substantially all of the deferred income tax assets, which include non-capital losses, other post-employment benefits, maintenance and other temporary differences, would be realized. Accordingly, previously unrecognized deferred income tax assets of \$1,056 million were recognized in the third quarter of 2024, which resulted in a tax recovery recorded in the consolidated statement of operations of \$1,154 million, tax recovery recorded in the consolidated statement of changes in equity of \$41 million and tax expense recorded in the consolidated statement of comprehensive income of \$139 million related to remeasurements on net employee benefit liabilities.

As at September 30, 2024, deferred tax assets and liabilities of \$1,110 million are recorded net as a non-current deferred income tax asset on the consolidated statement of financial position. Certain intangible assets with nominal tax cost and a carrying value of \$275 million have indefinite lives and accordingly, the associated deferred income tax liability of \$73 million (2023 - \$73 million) is not expected to reverse until the assets are disposed of, become impaired or amortizable.

As at September 30, 2024, the Corporation has net capital losses of approximately \$248 million available for income tax purposes as well as unrealized foreign exchange losses of \$161 million, for which no deferred income tax asset has been recognized at this time as the ability to utilize these tax attributes is limited to future taxable capital gains. While the net capital losses remain available for use, the recognition criteria for accounting is not met at this time.

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	
	2024	2023	2024	2023
Current income tax recovery (expense)	\$ (20)	\$ 6	\$ (24)	\$ 12
Deferred income tax recovery (expense)	1,158	(73)	1,152	(10)
Income tax recovery (expense)	\$ 1,138	\$ (67)	\$ 1,128	\$ 2

The Corporation's statutory tax rate for the nine months ended September 30, 2024 was 26.49% (26.46% for the nine months ended September 30, 2023).

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

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Remeasurements on net employee benefits				
- current income tax recovery (expense)	\$ -	\$ (1)	\$ (1)	\$ (3)
- deferred income tax recovery (expense)	(149)	69	(143)	14
Fuel derivatives designated as cash flow hedges				
- deferred income tax recovery (expense)	10	-	10	-
Income tax recovery (expense)	\$ (139)	\$ 68	\$ (134)	\$ 11

Income tax recorded in shareholders' equity is presented below.

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Share based compensation - deferred income tax recovery	\$ 19	\$ -	\$ 19	\$ -
Share issue cost - deferred income tax recovery	22	-	22	-
Income tax recovery	\$ 41	\$ -	\$ 41	\$ -

7. EARNINGS PER SHARE

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

(in millions, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Numerator:				
Net income for the period:	\$ 2,035	\$ 1,250	\$ 2,364	\$ 2,092
Effect of assumed conversion of convertible notes	(11)	(89)	(12)	(2)
Adjusted numerator for diluted earnings per share:	2,024	1,161	2,352	2,090
Denominator:				
Weighted-average shares	358	358	358	358
Effect of potential dilutive securities:				
Stock options	-	-	-	-
Convertible notes	18	18	18	18
Adjusted denominator for diluted earnings per share	376	376	376	376
Basic earnings per share	\$ 5.68	\$ 3.49	\$ 6.60	\$ 5.84
Diluted earnings per share	\$ 5.38	\$ 3.08	\$ 6.25	\$ 5.55

The calculation of earnings 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. CAPITAL COMMITMENTS

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation. U.S. dollar amounts are converted using the September 30, 2024 closing rate of CDN\$1.3525. Minimum future commitments under these contractual arrangements are shown below.

(Canadian dollars in millions)	Remainder of 2024	2025	2026	2027	2028	Thereafter	Total
Capital commitments	\$ 646	2,365	3,674	2,789	873	2,832	13,179

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 16 to the 2023 annual consolidated financial statements for information on the Corporation's risk management strategy.

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

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Embedded derivative on convertible notes	\$ 13	\$ 108	\$ 46	\$ 32
Short-term and long-term investments	13	(7)	20	(8)
Gain on financial instruments recorded at fair value	\$ 26	\$ 101	\$ 66	\$ 24

Foreign Exchange Risk Management

In the third quarter of 2024, the Corporation increased its target foreign currency derivative coverage from 60% to 70% on a rolling 18 month basis to manage its net U.S. dollar cash flow exposure.

As at September 30, 2024, the Corporation had outstanding foreign currency options and swap agreements, settling in 2024, 2025, and 2026, to purchase at maturity \$8,952 million (US\$6,621 million) of U.S. dollars at a weighted average rate of \$1.3123 per \$1.00 U.S. dollar (as at December 31, 2023 – \$5,982 million (US\$4,542 million) with settlements in 2024 and 2025 at a weighted average rate of \$1.3089 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, 2024 was \$140 million in favour of the counterparties (as at December 31, 2023 – \$165 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 2024, foreign exchange gain (loss) related to these derivatives was \$171 million loss (\$218 million gain for the nine month period ended September 30, 2024; \$215 million gain and \$316 million gain respectively for the three- and nine-month periods ended September 30, 2023). In the third quarter of 2024, foreign exchange derivative contracts cash settled with a net fair value of \$60 million in favour of the Corporation (\$192 million in favour of the Corporation for the nine month period ended September 30, 2024; \$36 million in favour of the Corporation and \$116 million in favour of the Corporation respectively for the three- and nine-month periods ended September 30, 2023).

Fuel Price Risk Management

During the third quarter of 2024, fuel derivative contracts cash settled with a fair value of \$8 million in favour of the counterparties, with a hedging loss of \$8 million recorded in Aircraft fuel expense (\$33 million hedging loss for the nine months ended September 30, 2024; \$68 million hedging gain for the three- and nine-month periods ended September 30, 2023).

As at September 30, 2024, approximately 50% of the Corporation's anticipated purchases of jet fuel for the fourth quarter of 2024 are hedged at an average jet fuel price of US\$0.5814 per litre. The contracts are comprised of jet fuel swaps and have a fair value of \$41 million in favour of the counterparties at September 30, 2024.

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. Cash and cash equivalents include \$243 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators (\$393 million at December 31, 2023).

The carrying amounts of derivatives are equal to their fair value, which is based on the amount at which they could be settled based on estimated market rates as at September 30, 2024.

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 \$9,892 million compared to its carrying value of \$10,032 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 16 to the 2023 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the nine months ended September 30, 2024.

(Canadian dollars in millions)	September 30, 2024	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	\$ 288	\$ —	\$ 288	\$ —
Short-term investments	4,987	—	4,987	—
Long-term investments	562	—	562	—
Equity investment in Chorus	44	44	—	—
Derivative instruments				
Foreign exchange derivatives	34	—	34	—
Total	\$ 5,915	\$ 44	\$ 5,871	\$ —
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	174	—	174	—
Fuel derivatives	41	—	41	—
Embedded derivative on convertible notes	10	—	10	—
Total	\$ 225	\$ —	\$ 225	\$ —

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 September 30		Nine months ended September 30	
	2024	2023	2024	2023
Canada	\$ 1,493	\$ 1,515	\$ 3,950	\$ 3,861
U.S. Transborder	1,097	1,127	3,216	3,130
Atlantic	1,953	2,201	4,491	4,790
Pacific	774	704	2,146	1,769
Other	284	314	1,231	1,300
	\$ 5,601	\$ 5,861	\$ 15,034	\$ 14,850

Cargo Revenues (Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Canada	\$ 28	\$ 22	\$ 76	\$ 69
U.S. Transborder	15	11	41	33
Atlantic	92	100	265	328
Pacific	86	54	219	157
Other	32	28	97	93
	\$ 253	\$ 215	\$ 698	\$ 680

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.

11. ISSUER BID

In the fourth quarter of 2024, Air Canada received approval from the Toronto Stock Exchange ("TSX") to launch a normal course issuer bid allowing it to purchase for cancellation, in accordance with the rules of the TSX and during the period from November 5, 2024 to November 4, 2025, up to 35,783,842 of its Class A variable voting shares and Class B voting shares (collectively the "Shares"), representing about 10% of the public float of its Shares as at October 22, 2024.