



First Quarter 2021
INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes
May 7, 2021



A STAR ALLIANCE MEMBER 

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)	March 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 3,278	\$ 3,658
Short-term investments	2,691	3,843
Total cash, cash equivalents and short-term investments	5,969	7,501
Restricted cash	104	106
Accounts receivable	667	644
Aircraft fuel inventory	35	41
Spare parts and supplies inventory	124	125
Prepaid expenses and other current assets	224	254
Total current assets	7,123	8,671
Investments, deposits and other assets	942	833
Property and equipment	12,099	12,137
Pension assets	2,869	2,840
Deferred income tax	29	25
Intangible assets	1,129	1,134
Goodwill	3,273	3,273
Total assets	\$ 27,464	\$ 28,913
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,269	\$ 2,465
Advance ticket sales	2,337	2,314
Aeroplan and other deferred revenue	664	572
Current portion of long-term debt and lease liabilities	1,630	1,788
Total current liabilities	6,900	7,139
Long-term debt and lease liabilities	11,122	11,201
Aeroplan and other deferred revenue	3,975	4,032
Pension and other benefit liabilities	2,628	3,015
Maintenance provisions	968	1,040
Other long-term liabilities	892	696
Deferred income tax	75	75
Total liabilities	\$ 26,560	\$ 27,198
SHAREHOLDERS' EQUITY		
Share capital	2,229	2,150
Contributed surplus	95	98
Accumulated other comprehensive loss	(26)	(39)
Deficit	(1,394)	(494)
Total shareholders' equity	904	1,715
Total liabilities and shareholders' equity	\$ 27,464	\$ 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 March 31	
		2021	2020
Operating revenues			
Passenger	Note 10	\$ 395	\$ 3,193
Cargo	Note 10	281	149
Other		53	380
Total revenues		729	3,722
Operating expenses			
Aircraft fuel		200	836
Wages, salaries and benefits		528	796
Regional airlines expense, excluding fuel		195	471
Depreciation and amortization		413	504
Aircraft maintenance		150	270
Airport and navigation fees		98	228
Sales and distribution costs		24	183
Ground package costs		5	234
Catering and onboard services		21	97
Communications and information technology		105	135
Special items	Note 3	(127)	-
Other		166	401
Total operating expenses		1,778	4,155
Operating loss		(1,049)	(433)
Non-operating income (expense)			
Foreign exchange gain (loss)		67	(711)
Interest income		21	42
Interest expense	Note 4	(177)	(129)
Interest capitalized		4	8
Net financing expense relating to employee benefits		(4)	(11)
Loss on financial instruments	Note 9	(242)	(34)
Other		(7)	(8)
Total non-operating expense		(338)	(843)
Loss before income taxes		(1,387)	(1,276)
Income tax recovery	Note 5	83	227
Net loss for the period		\$ (1,304)	\$ (1,049)
Net loss per share			
Basic and diluted loss per share	Note 7	\$ (3.90)	\$ (4.00)

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 March 31	
	2021	2020
Comprehensive income (loss)		
Net loss for the period	\$ (1,304)	\$ (1,049)
Other comprehensive income (loss), net of tax expense: Note 5		
Items that will not be reclassified to net income		
Remeasurements on employee benefit liabilities	404	1,108
Remeasurements on equity investments	13	(76)
Total comprehensive loss	\$ (887)	\$ (17)

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	-	-	-	(1,049)	(1,049)
Remeasurements on employee benefit liabilities	-	-	-	1,108	1,108
Remeasurements on equity investments	-	-	(76)	-	(76)
Total comprehensive loss	-	-	(76)	59	(17)
Share-based compensation	-	4	-	-	4
Shares issued	1	-	-	-	1
Shares purchased and cancelled under issuer bid	(8)	-	-	(119)	(127)
March 31, 2020	\$ 778	\$ 87	\$ (51)	\$ 3,447	\$ 4,261
January 1, 2021	\$ 2,150	\$ 98	\$ (39)	\$ (494)	\$ 1,715
Net loss	-	-	-	(1,304)	(1,304)
Remeasurements on employee benefit liabilities	-	-	-	404	404
Remeasurements on equity investments	-	-	13	-	13
Total comprehensive loss	-	-	13	(900)	(887)
Share-based compensation	-	2	-	-	2
Shares issued, net	79	(5)	-	-	74
March 31, 2021	\$ 2,229	\$ 95	\$ (26)	\$ (1,394)	\$ 904

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 March 31	
	2021	2020
Cash flows from (used for)		
Operating		
Net loss for the period	\$ (1,304)	\$ (1,049)
Adjustments to reconcile to net cash from operations		
Deferred income tax Note 5	(84)	(196)
Depreciation and amortization	413	504
Foreign exchange (gain) loss	(179)	737
Employee benefit funding less than expense	54	74
Loss on financial instruments Note 9	242	34
Change in maintenance provisions	(87)	53
Changes in non-cash working capital balances	(4)	(98)
Special items Note 3	7	-
Other	54	(79)
Net cash flows used in operating activities	(888)	(20)
Financing		
Proceeds from borrowings Note 4	128	1,027
Reduction of long-term debt and lease liabilities Note 4	(404)	(509)
Shares purchased for cancellation Note 6	-	(132)
Issue of shares Note 6	74	1
Financing fees Note 4	(3)	-
Net cash flows from (used in) financing activities	(205)	387
Investing		
Investments, short-term and long-term	994	408
Additions to property, equipment and intangible assets	(280)	(373)
Proceeds from sale of assets	5	2
Proceeds from sale and leaseback of assets	6	-
Other	6	31
Net cash flows from investing activities	731	68
Effect of exchange rate changes on cash and cash equivalents	(18)	63
Increase (decrease) in cash and cash equivalents	(380)	498
Cash and cash equivalents, beginning of period	3,658	2,090
Cash and cash equivalents, end of period	\$ 3,278	\$ 2,588
Cash payments of interest Note 4	\$ 133	\$ 110
Cash payments of income taxes	\$ 32	\$ 91

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 severe drop in traffic 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, and particularly in Canada. The impacts of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash flow from operations. There is very limited visibility on travel demand given changing government restrictions in place around the world and the severity of the restrictions in Canada; these restrictions and concerns about travel due to the COVID-19 pandemic as well as passenger concerns and expectations about the need for certain precautions, such as physical distancing, are severely inhibiting demand. The COVID-19 pandemic is also having significant economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. 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, as well as timing of a recovery in international and business travel which are important segments of Air Canada’s markets, none of which can be predicted with any degree of 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, it is expected that the normal seasonal demand pattern will not occur in 2021, with demand being considerably 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. Since mid-March 2020, capacity has been significantly reduced when compared to 2019. Capacity was significantly reduced in the first quarter of 2021 and is expected to continue to be at significantly reduced levels throughout the remainder of 2021. 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.

As described in Note 11, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada, which will allow Air Canada to access up to \$5.379 billion in debt financing through fully repayable loans that Air Canada would only draw down if and as required, as well as an equity investment for gross proceeds of \$500 million (net proceeds of approximately \$480 million).



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 May 6, 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 March 31	
	2021	2020
Impairments	\$ 20	\$ -
Canada emergency wage subsidy, net	(163)	-
Workforce reduction provisions	2	-
Other	14	-
Special items	\$ (127)	\$ -

Impairments

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

In 2021, an additional impairment charge of \$20 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. 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 \$166 million in the first quarter of 2021. Cash payments of \$156 million have been received in the first quarter of 2021. 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 intends to continue its participation in the CEWS program which is available to June 2021, subject to meeting the eligibility requirements. In the April 19, 2021 Federal Budget, the Government of Canada announced the program would be extended to September 2021.

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. 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 certain regional Air Canada Express flights. Through the revised agreement, Air Canada will transfer operation of its Embraer E175 fleet to Jazz from Sky Regional and Jazz will 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. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	March 31, 2021 (Canadian dollars in millions)	December 31, 2020 (Canadian dollars in millions)
Aircraft financing				
Fixed rate U.S. dollar financing	2021 – 2030	4.89	\$ 3,681	\$ 3,791
Floating rate U.S. dollar financing	2026 – 2027	2.08	462	483
Fixed rate CDN dollar financing	2026 – 2030	3.78	232	232
Floating rate CDN dollar financing	2026 – 2032	2.03	956	1,007
Fixed rate Japanese yen financing	2027	1.84	133	145
Floating rate Japanese yen financing	2027	3.00	3	5
Convertible notes	2025	4.00	671	667
Senior and Second Lien secured notes – CDN dollar	2023 – 2024	8.18	1,040	1,040
Senior unsecured notes – U.S. dollar	2021	7.75	502	509
Other secured financing – U.S. dollar	2023 – 2024	2.24	1,481	1,483
Other secured financing – CDN dollar	2023	3.14	199	199
Long-term debt		4.39	9,360	9,561
Lease liabilities				
Air Canada aircraft	2021 – 2029	4.90	2,027	1,996
Regional aircraft	2023 – 2035	6.24	1,104	1,171
Land and buildings	2021 – 2078	5.41	423	429
Lease liabilities		5.38	3,554	3,596
Total debt and lease liabilities		4.66	12,914	13,157
Unamortized debt issuance costs and discounts			(162)	(168)
Current portion – Long-term debt			(1,083)	(1,244)
Current portion – Air Canada aircraft			(349)	(340)
Current portion – Regional aircraft			(173)	(179)
Current portion – Land and buildings			(25)	(25)
Long-term debt and lease liabilities			\$ 11,122	\$ 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 concluded during the three months ended March 31, 2021 and described below.

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 are financed under this facility, the bridge financing of \$788 million put in place in April 2020 is repaid concurrently. Air Canada took delivery of the final three Airbus A220 aircraft 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 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 which is included in Loss on financial instruments.

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 March 31, 2021, Air Canada had not drawn any amounts under this facility. As at March 31, 2021, up to 15 term loan facilities were available, each one relating to one of the aircraft and being not more than the Canadian dollar equivalent of the applicable loan maximum. 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%.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	Three months ended March 31	
	2021	2020
Interest on debt	\$ 131	\$ 74
Interest on lease liabilities		
Air Canada aircraft	24	30
Regional aircraft	17	20
Land and buildings	5	5
Interest expense	\$ 177	\$ 129

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 March 31	
	2021	2020
Short-term leases	\$ 4	\$ 20
Variable lease payments not included in lease liabilities	7	7
Expense related to leases (included in Other operating expenses)	\$ 11	\$ 27

Total cash outflows for payments on lease liabilities was \$190 million for the three months ended March 31, 2021 (\$213 million for the three months ended March 31, 2020), of which \$144 million was for principal repayments (\$158 million for the three months ended March 31, 2020).

Maturity Analysis

Principal and interest repayment requirements as at March 31, 2021 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the March 31, 2021 closing rate of CDN\$1.2562.

Principal (Canadian dollars in millions)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 978	\$ 475	\$ 1,713	\$ 2,016	\$ 1,612	\$ 2,836	\$ 9,630
Air Canada aircraft	275	301	295	284	269	603	2,027
Regional aircraft	134	160	162	135	121	392	1,104
Land and buildings	18	25	23	23	24	310	423
Lease liabilities	\$ 427	\$ 486	\$ 480	\$ 442	\$ 414	\$ 1,305	\$ 3,554
Total long-term debt and lease liabilities	\$ 1,405	\$ 961	\$ 2,193	\$ 2,458	\$ 2,026	\$ 4,141	\$ 13,184

Interest (Canadian dollars in millions)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 305	\$ 352	\$ 328	\$ 235	\$ 173	\$ 260	\$ 1,653
Air Canada aircraft	66	73	60	47	34	45	325
Regional aircraft	47	53	42	32	24	102	300
Land and buildings	16	20	19	18	17	208	298
Lease liabilities	\$ 129	\$ 146	\$ 121	\$ 97	\$ 75	\$ 355	\$ 923
Total long-term debt and lease liabilities	\$ 434	\$ 498	\$ 449	\$ 332	\$ 248	\$ 615	\$ 2,576

(1) Assumes the principal balance of the convertible notes remains unconverted and includes estimated interest payable until maturity in 2025.

Principal repayments in the table above exclude discounts and transaction costs of \$162 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			Mar. 31, 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	\$ 128	\$ (260)	\$ -	\$ (104)	\$ 35	\$ -	\$ 9,360
Air Canada aircraft	1,996	-	(100)	-	(26)	-	157	2,027
Regional aircraft	1,171	-	(37)	-	(14)	-	(16)	1,104
Land and buildings	429	-	(7)	-	(1)	-	2	423
Lease liabilities	3,596	-	(144)	-	(41)	-	143	3,554
Unamortized debt issuance costs	(168)	-	-	(3)	-	9	-	(162)
Total liabilities from financing activities	\$ 12,989	\$ 128	\$ (404)	\$ (3)	\$ (145)	\$ 44	\$ 143	\$ 12,752

5. INCOME TAXES

Income Tax Recovery

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

(Canadian dollars in millions)	Three months ended March 31	
	2021	2020
Current income tax recovery (expense)	\$ (1)	\$ 31
Deferred income tax recovery	84	196
Income tax recovery	\$ 83	\$ 227

The Corporation's statutory tax rate for the three months ended March 31, 2021 was 26.47% (26.60% for the three months ended March 31, 2020).

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

(Canadian dollars in millions)	Three months ended March 31	
	2021	2020
Remeasurements on employee benefit liabilities		
- current income tax (expense)	\$ (4)	\$ -
- deferred income tax (expense)	(80)	(400)
Remeasurements on equity investments		
- deferred income tax recovery	-	4
Income tax (expense)	\$ (84)	\$ (396)

6. SHARE CAPITAL

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 the December 2020 underwritten public 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 exercised their over-allotment option to purchase an additional 2,587,000 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 11, in April 2021, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada.

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 March 31	
	2021	2020
Numerator:		
Net loss for the period	\$ (1,304)	\$ (1,049)
Effect of assumed conversion of convertible notes	201	-
Remove anti-dilutive impact	(201)	-
Adjusted numerator for diluted loss per share	\$ (1,304)	\$ (1,049)
Denominator:		
Weighted-average shares	335	263
Effect of potential dilutive securities:		
Stock options	1	2
Convertible notes	49	-
Total potential dilutive securities	50	2
Remove anti-dilutive impact	(50)	(2)
Adjusted denominator for diluted loss per share	335	263
Basic and diluted loss per share	\$ (3.90)	\$ (4.00)

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 where the options' exercise prices were greater than the average market price of the shares for the period.

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 March 31, 2021. U.S. dollar amounts are converted using the March 31, 2021 closing rate of CDN\$1.2562. 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	\$ 747	\$ 992	\$ 492	\$ 198	\$ -	\$ -	\$ 2,429

9. 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 loss on financial instruments

(Canadian dollars in millions)	Three months ended March 31	
	2021	2020
Share forward contracts	\$ 3	\$ (34)
Embedded derivative on convertible notes	(187)	-
Financial assets measured at fair value	(39)	-
Loss on debt modifications Note 4	(19)	-
Loss on financial instruments	\$ (242)	\$ (34)

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 March 31, 2021, unrestricted liquidity was \$6,582 million comprised of Cash and cash equivalents, Short-term investments, and Long-term investments.

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

- Revised the terms of its Capacity Purchase Agreement with Jazz Aviation LP. Through the revised agreement, Jazz will 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 4, the Corporation extended its US\$600 million and \$200 million revolving credit facilities by one year.
- As described in Note 11, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada, which will allow Air Canada to access up to \$5.379 billion in debt financing through fully repayable loans that Air Canada would only draw down if and as required, as well as an equity investment for gross proceeds of \$500 million (net proceeds of approximately \$480 million).

Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at March 31, 2021, as further described below, approximately 71% of net U.S. cash outflows are hedged for the remainder of 2021 and 31% for 2022, resulting in derivative coverage of 53% over the next 21 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 63% coverage over the next 21 months.

As at March 31, 2021, the Corporation had outstanding foreign currency options and swap agreements, settling in 2021 and 2022, to purchase at maturity \$4,267 million (US\$3,393 million) of U.S. dollars at a weighted average rate of \$1.3662 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, YUAN, and AUD (EUR €167 million, GBP £78 million, JPY ¥1,864 million, CNH ¥262 million, and AUD \$55 million) which settle in 2021 and 2022 at weighted average rates of €1.1376, £1.3289, ¥0.0094, ¥0.1468, and \$0.6960 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 March 31, 2021 was \$543 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 first quarter of 2021, Foreign exchange gain (loss) related to these derivatives was \$73 million loss (nil in the first quarter of 2020). In the first quarter of 2021, foreign exchange derivative contracts cash settled with a net fair value of \$121 million in favour of the counterparties (\$33 million in the first quarter of 2020 in favour of the Corporation).

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 March 31, 2021 amounted to \$1,586 million (US\$1,263 million) (\$1,747 million (US\$1,371 million) as at December 31, 2020). During the three months ended March 31, 2021, a loss of \$21 million (three months ended March 31, 2020 – gain of \$91 million) 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 March 31, 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 \$9,560 million compared to its carrying value of \$9,360 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. There were no transfers within the fair value hierarchy during the three months ended March 31, 2021.

	March 31, 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)
(Canadian dollars in millions)				
Financial Assets				
Held-for-trading securities				
Cash equivalents	\$ 232	\$ -	\$ 232	\$ -
Short-term investments	2,691	-	2,691	-
Long-term investments	613	-	613	-
Equity investment in Chorus	71	71	-	-
Derivative instruments				
Share forward contracts	21	-	21	-
Total	\$ 3,628	\$ 71	\$ 3,557	\$ -
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	543	-	543	-
Embedded derivative on convertible notes	721	-	721	-
Total	\$ 1,264	\$ -	\$ 1,264	\$ -

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 March 31	
	2021	2020
Canada	\$ 237	\$ 944
U.S. Transborder	29	755
Atlantic	87	659
Pacific	16	392
Other	26	443
	\$ 395	\$ 3,193

Cargo Revenues (Canadian dollars in millions)	Three months ended March 31	
	2021	2020
Canada	\$ 24	\$ 19
U.S. Transborder	11	9
Atlantic	119	69
Pacific	108	38
Other	19	14
	\$ 281	\$ 149

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.

11. SUBSEQUENT EVENTS

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 its subsidiary, Canada Enterprise Emergency Funding Corporation) which will allow 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 would 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 approximately \$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.
- \$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).
- 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 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.
- Up to \$1.404 billion in the form of an unsecured credit facility tranche to support customer refunds of non-refundable tickets. The facility will have a seven-year term maturing April 2028 and carry an annual interest rate of 1.211%. Draws under this facility will be made monthly based on the amount of refunds processed and paid during the period.

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 the option of a refund to the original form of payment. In support of its travel agency partners, Air Canada will not retract agency sales commissions on refunded fares.
- The resumption of service or access to Air Canada's network for nearly all 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.
- 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.

The Corporation is evaluating the accounting impacts of these agreements on its second quarter 2021 consolidated financial statements, including the accounting requirements for government assistance and the fair value of the loans, shares and warrants issued.

Pension Plan Amendment

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 employees. The decision has resulted in an increase to the maximum pensionable earnings cap used for purposes of calculating pension income, which change is effective in the second quarter of 2021, however the period of retroactivity is not yet determined since the arbitrator left it to Air Canada and the IAMAW to negotiate the period of retroactivity. Subject to resolving the period of retroactivity, the Corporation will record a one-time pension past service cost, which will be reported as a special item, estimated to be in the range of \$100 million to \$130 million in the second quarter of 2021. This amendment does not impact the Corporation's liquidity position as it is funded out of the surplus in the domestic registered pension plans.

Early Retirement Incentive Programs

As a result of the COVID-19 pandemic and to mitigate the number of employees who remain on layoff status, during the second quarter of 2021, Air Canada is offering early retirement incentive programs to its unionized workforce. These programs provide for pension improvements payable from the defined benefit pension plan for eligible employees, and as such do not impact the Corporation's liquidity position. The charge for this program will be recorded during the second quarter of 2021 as a termination benefit, which will be reported as a special item. The amount of the charge is not yet determinable as the number of employees participating in this program is not yet known.