Third Quarter 2020

INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes

November 9, 2020

AIR CANADA

A STAR ALLIANCE MEMBER

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)		**September 30, 2020**	**December 31, 2019**
ASSETS			
Current			
Cash and cash equivalents		$ 3,790	$ 2,090
Short-term investments		3,985	3,799
Total cash, cash equivalents and short-term investments		7,775	5,889
Restricted cash		86	157
Accounts receivable		518	926
Aircraft fuel inventory		62	102
Spare parts and supplies inventory		129	110
Prepaid expenses and other current assets		173	332
Total current assets		8,743	7,516
Investments, deposits and other assets		695	936
Property and equipment	Note 5	12,170	12,834
Pension assets		2,541	2,064
Deferred income tax		23	134
Intangible assets		1,114	1,002
Goodwill		3,273	3,273
Total assets		**$ 28,559**	**$ 27,759**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 2,237	$ 2,456
Advance ticket sales		2,322	2,939
Aeroplan and other deferred revenue		676	1,162
Current portion of long-term debt and lease liabilities	Note 6	2,001	1,218
Total current liabilities		7,236	7,775
Long-term debt and lease liabilities	Note 6	11,161	8,024
Aeroplan and other deferred revenue		3,857	3,136
Pension and other benefit liabilities		3,061	2,930
Maintenance provisions		1,020	1,240
Other long-term liabilities	Note 6	436	181
Deferred income tax		73	73
Total liabilities		**$ 26,844**	**$ 23,359**
SHAREHOLDERS' EQUITY			
Share capital	Note 8	1,335	785
Contributed surplus		97	83
Accumulated other comprehensive income (loss)		(63)	25
Retained earnings		346	3,507
Total shareholders' equity		1,715	4,400
Total liabilities and shareholders' equity		**$ 28,559**	**$ 27,759**

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 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Operating revenues					
Passenger	Note 12	$ 507	$ 5,141	$ 3,907	$ 13,257
Cargo	Note 12	216	177	634	531
Other		34	212	465	914
Total revenues		**757**	**5,530**	**5,006**	**14,702**
Operating expenses					
Aircraft fuel		175	1,220	1,135	3,334
Wages, salaries and benefits		475	788	1,735	2,368
Regional airlines expense, excluding fuel		198	501	841	1,451
Depreciation and amortization	Note 5	423	516	1,414	1,466
Aircraft maintenance	Note 3	45	254	496	754
Airport and navigation fees		97	284	438	760
Sales and distribution costs		30	248	226	680
Ground package costs		5	86	236	496
Catering and onboard services		26	125	146	340
Communications and information technology		66	96	292	288
Special items	Note 4	(192)	-	44	-
Other		194	456	776	1,260
Total operating expenses		**1,542**	**4,574**	**7,779**	**13,197**
Operating income (loss)		**(785)**	**956**	**(2,773)**	**1,505**
Non-operating income (expense)					
Foreign exchange gain (loss)		88	27	(381)	407
Interest income		32	44	106	123
Interest expense	Note 6	(196)	(129)	(474)	(393)
Interest capitalized		6	9	20	26
Net financing expense relating to employee benefits		(6)	(10)	(26)	(29)
Gain (loss) on financial instruments recorded at fair value	Note 11	46	4	(28)	18
Other		(6)	(23)	(22)	(54)
Total non-operating income (expense)		**(36)**	**(78)**	**(805)**	**98**
Income (loss) before income taxes		**(821)**	**878**	**(3,578)**	**1,603**
Income tax (expense) recovery	Note 7	136	(242)	92	(279)
Net income (loss) for the period		**$ (685)**	**$ 636**	**$ (3,486)**	**$ 1,324**
Net income (loss) per share	Note 9				
Basic earnings (loss) per share		$ (2.31)	$ 2.38	$ (12.58)	$ 4.93
Diluted earnings (loss) per share		$ (2.31)	$ 2.35	$ (12.58)	$ 4.86

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited (Canadian dollars in millions)		**Three months ended September 30**		**Nine months ended September 30**	
		2020	**2019**	**2020**	**2019**
Comprehensive income (loss)					
Net income (loss) for the period		$ (685)	$ 636	$ (3,486)	$ 1,324
Other comprehensive income (loss), net of tax expense:					
Items that will not be reclassified to net income					
Remeasurements on employee benefit liabilities	Note 7	365	121	444	(345)
Remeasurements on equity investments	Note 7	(12)	(1)	(88)	19
Items that will be reclassified to net income					
Fuel derivatives designated as cash flow hedges, net	Note 7 & 11	-	4	-	-
Total comprehensive income (loss)		**$ (332)**	**$ 760**	**$ (3,130)**	**$ 998**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (Canadian dollars in millions)	**Share capital**	**Contributed surplus**	**Accumulated OCI**	**Retained earnings**	**Total shareholders' equity**
January 1, 2019	$ 798	$ 75	$ –	$ 2,404	$ 3,277
Net income (loss)	–	–	–	1,324	1,324
Remeasurements on employee benefit liabilities	–	–	–	(345)	(345)
Remeasurements on equity investments	–	–	19	–	19
Fuel derivatives designated as cash flow hedges, net	–	–	–	–	–
Total comprehensive income	–	–	19	979	998
Share-based compensation	–	10	–	–	10
Shares issued	12	(4)	–	–	8
Shares purchased and cancelled under issuer bid	(19)	–	–	(231)	(250)
September 30, 2019	$ 791	$ 81	$ 19	$ 3,152	$ 4,043
January 1, 2020	$ 785	$ 83	$ 25	$ 3,507	$ 4,400
Net income (loss)	–	–	–	(3,486)	(3,486)
Remeasurements on employee benefit liabilities	–	–	–	444	444
Remeasurements on equity investments	–	–	(88)	–	(88)
Total comprehensive income	–	–	(88)	(3,042)	(3,130)
Share-based compensation	–	14	–	–	14
Shares issued, net (Note 8)	558	–	–	–	558
Shares purchased and cancelled under issuer bid	(8)	–	–	(119)	(127)
September 30, 2020	$ 1,335	$ 97	$ (63)	$ 346	$ 1,715

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**	
		2020	**2019**	**2020**	**2019**
Cash flows from (used for)					
Operating					
Net income (loss) for the period		$ (685)	$ 636	$ (3,486)	$ 1,324
Adjustments to reconcile to net cash from operations					
Deferred income tax		(140)	149	(58)	156
Depreciation and amortization		423	516	1,414	1,466
Foreign exchange (gain) loss		(112)	6	361	(303)
Card agreement proceeds	Note 13	-	-	-	1,212
Aeroplan Miles prepayment proceeds	Note 13	-	-	-	400
Employee benefit funding less than expense		49	52	222	160
Financial instruments recorded at fair value	Note 11	(46)	10	28	(32)
Change in maintenance provisions		(78)	38	9	119
Changes in non-cash working capital balances		286	(578)	(362)	544
Special items	Note 4	(3)	-	327	-
Other		20	5	(12)	(11)
Net cash flows from (used in) operating activities		**(286)**	**834**	**(1,557)**	**5,035**
Financing					
Proceeds from borrowings	Note 6	1,114	-	6,008	-
Reduction of long-term debt and lease obligations		(1,433)	(276)	(2,211)	(808)
Shares purchased for cancellation	Note 8	-	(94)	(132)	(248)
Issue of shares	Note 8	-	5	554	8
Financing fees		(13)	-	(75)	-
Net cash flows from (used in) financing activities		**(332)**	**(365)**	**4,144**	**(1,048)**
Investing					
Investments, short-term and long-term		(368)	197	(72)	(322)
Additions to property, equipment and intangible assets		(282)	(301)	(867)	(1,774)
Proceeds from sale of assets		2	3	6	6
Acquisition of Aeroplan	Note 13	-	-	-	(517)
Investment in Chorus	Note 14	-	-	-	(97)
Other		4	11	41	62
Net cash flows used in investing activities		**(644)**	**(90)**	**(892)**	**(2,642)**
Effect of exchange rate changes on cash and cash equivalents		**(37)**	**6**	**5**	**1**
Increase (decrease) in cash and cash equivalents		**(1,299)**	**385**	**1,700**	**1,346**
Cash and cash equivalents, beginning of period		5,089	1,591	2,090	630
Cash and cash equivalents, end of period		**$ 3,790**	**$ 1,976**	**$ 3,790**	**$ 1,976**

Cash payments of interest	Note 6	**$ 121**	**$ 115**	**$ 365**	**$ 370**
Cash payments (recoveries) of income taxes		**$ (88)**	**$ 17**	**$ 3**	**$ 46**

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 rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus ("COVID-19") pandemic and the travel restrictions imposed in many countries around the world, and particularly in Canada as well as the United States. The impact 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 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 virus as well as passenger concerns and expectations about the need for certain precautions such as physical distancing are severely inhibiting demand. Air Canada cannot predict the full impact or the timing for when conditions 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, 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 market, none of which can be predicted with any degree of certainty. Refer to Note 11 for information on financing activities and other actions taken in response to the COVID-19 crisis. Refer to Note 3 for considerations related to critical accounting estimates and judgments updated to reflect the currently known impact of the COVID-19 pandemic.

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, the normal seasonal demand pattern is not occurring and will not be as pronounced in 2020, 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, capacity has been significantly reduced when compared to 2019 and is expected to continue to be at significantly reduced levels for the remainder of 2020 and beyond. The airline continues to dynamically adjust capacity as required. The Corporation has substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short term.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting". In accordance with GAAP, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2019. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These financial statements were approved for issue by the Board of Directors of the Corporation on November 8, 2020.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2019 annual consolidated financial statements except as noted below.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year. Aircraft fuel expense related to regional airline operations is now presented within Aircraft fuel on the consolidated statement of operations. Previously included in Regional airlines expense, this reclassification provides improved presentation of the total cost of fuel associated with the Corporation's operations.

Government grants

The Corporation recognizes government grants when there is reasonable assurance that the Corporation will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in Accounts receivable on the consolidated statement of financial position. The Corporation recognizes government grants in the consolidated statement of operations in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in profit or loss in the period in which it becomes receivable.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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. The significant estimates and judgments made are reviewed on an ongoing basis. Refer to Note 3 to the 2019 annual consolidated financial statements which is updated as described below to reflect the currently known impact of the COVID-19 pandemic which continues to fluidly evolve.

Goodwill

An assessment of goodwill was performed at period end in light of the current COVID-19 pandemic. Results from the assessment indicated a market capitalization greater than the carrying value of the Corporation's net assets; accordingly, no impairment charge was recorded.

Impairment considerations on long-lived assets

An assessment of the recoverable amount of the Corporation's cash-generating units ("CGUs") compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The recoverable amount of the cash-generating units has been measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model would represent a level 3 fair value measurement within the IFRS 13 fair value hierarchy. The cash flows are management's best projections based on current and anticipated market conditions covering a five-year period. However, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID-19 pandemic. It is possible that long-term underperformance relative to these projections could occur if passenger demand is below projected levels and travel restrictions continue to prevail with duration and impact greater than currently anticipated. The recoverable amount of both cash-generating units continues to exceed their respective carrying values. Reasonably possible changes in projections have been considered in this evaluation but do not indicate that the carrying values exceed recoverable amounts.

Key assumptions used were a 9.2% discount rate applied to the cash flow projections and was derived from market participant assumptions regarding the Corporation's weighted average cost of capital adjusted for taxes and specific risks associated with the cash-generating unit being tested. Cash flows beyond the five-year period are projected to increase at 2.5% consistent with the long-term growth assumption of the airline industry considering various factors such as the Corporation's fleet plans and industry growth assumptions.

The COVID-19 pandemic and its impact on the economy are constantly evolving in an unpredictable manner and present many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Corporation's anticipated revenue levels and the recoverable amount of the CGUs.

An impairment assessment of the aircraft that will be permanently leaving the fleet was done separately from the Corporation's CGUs with an impairment charge of $295 million recorded in Special items in the second quarter of 2020 as described in Note 4.

Income taxes

Commencing in the second quarter of 2020, the deferred income tax assets related to unused tax losses and other deductible temporary differences were not recognized. Management assessed the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. As described in Note 1, as a result of the COVID-19 pandemic, there is considerable negative evidence relating to losses incurred in the current year and uncertainty exists as to when conditions will improve. Such negative evidence currently outweighs the positive historical evidence and accordingly, the net deferred tax asset was not recognized. Deferred tax assets have only been recognized to the extent of taxable temporary differences expected to reverse and generate taxable income against which the deferred tax assets can be utilized. The future income tax deductions underlying the unrecognized deferred income tax assets remain available for use in the future to reduce taxable income. Refer to Note 7.

Maintenance provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates take into account current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred at the end of the lease and the amount of the provision is recorded in Aircraft maintenance expense in the period.

In the third quarter of 2020 and as a result of updated cost estimates in preparation for returning these aircraft to lessors upon lease expiry, a favorable adjustment to Aircraft maintenance expense of $72 million was recorded primarily related to Airbus A320 and regional aircraft. These aircraft leases are expiring in accordance with their terms and are not part of the accelerated retirements discussed in Note 4. The cost to meet contractual return conditions on upcoming lease returns has been favorably impacted due to reduced flying since the last maintenance event and projected to the lease expiry dates as a result of the COVID-19 pandemic.

4. 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:

	Three months ended September 30		Nine months ended September 30	
(Canadian dollars in millions)	**2020**	**2019**	**2020**	**2019**
Impairments	$ (3)	$ -	$ 327	$ -
Workforce reduction provisions	-	-	112	-
Canada emergency wage subsidy, net	(189)	-	(391)	-
Other	-	-	(4)	-
Special items	**$ (192)**	**$ -**	**$ 44**	**$ -**

Impairments

In response to capacity reductions related to the impact of the COVID-19 pandemic, Air Canada is accelerating the retirement of 79 older aircraft from its fleet consisting of Boeing 767, Airbus A319 and Embraer 190 aircraft. These aircraft are being permanently retired and removed from the cash-generating units for evaluation of whether impairments exist. A fair value less cost to dispose model based on level 3 inputs was used in the evaluation of impairment. The recoverable amount of the owned aircraft is equal to expected proceeds on disposal reflecting management's best estimate including inputs from published pricing guides adjusted to reflect management's best estimate of the current market environment. The recoverable amount for the leased aircraft was determined as the estimated net obligation to settle the leases comprised of contractual future lease payments and end of lease return costs.

A non-cash impairment charge of $295 million was recorded in the second quarter of 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. Changes to the estimates around the expected disposal proceeds may result in adjustments to the impairment charge in future periods.

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

Workforce reduction provisions

As a result of COVID-19, Air Canada undertook a workforce reduction of approximately 20,000 employees in the second quarter of 2020, representing more than 50% of its staff, achieved through layoffs, terminations of employment, early retirements and special leaves. A workforce reduction provision of $76 million was recorded related to these measures. Payments of $21 million have been made to the end of the third quarter, resulting in a remaining obligation of $55 million at September 30, 2020. The provision includes the estimated notice of termination and severance costs under the Corporation's collective agreements and the *Canada Labour Code*, which amount is subject to adjustment depending on the duration and number of employees who remain on layoff status. In addition, termination benefits and curtailments of $36 million related to the pension and benefit obligations were recorded.

Canada Emergency Wage Subsidy

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

Air Canada determined that it met the employer eligibility criteria and applied for the CEWS retroactively to March 15, 2020. The Corporation has recorded a total gross subsidy under the CEWS program of $197 million in the third quarter of 2020 ($492 million for the nine months ended September 30, 2020). Cash payments of $260 million have been received in the third quarter of 2020 ($440 million for the nine months ended September 30, 2020). In July 2020, the program was redesigned and extended until December 2020, with the Government of Canada announcing in September a further extension of the wage subsidy program to June 2021. Air Canada intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements. 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.

5. PROPERTY AND EQUIPMENT

(Canadian dollars in millions)	September 30, 2020			December 31, 2019		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Owned tangible assets						
Aircraft and flight equipment	$ 13,570	$ 5,385	$ 8,185	$ 12,920	$ 4,616	$ 8,304
Buildings and leasehold improvements	1,028	541	487	923	501	422
Ground and other equipment	659	427	232	640	395	245
Purchase deposits and assets under development	795	-	795	1,041	-	1,041
Owned tangible assets	**$ 16,052**	**$ 6,353**	**$ 9,699**	**$ 15,524**	**$ 5,512**	**$ 10,012**
Air Canada aircraft	$ 5,187	$ 3,780	$ 1,407	$ 5,055	$ 3,282	$ 1,773
Regional aircraft	1,941	1,207	734	1,893	1,135	758
Land and buildings	507	177	330	447	156	291
Right-of-use assets	**$ 7,635**	**$ 5,164**	**$ 2,471**	**$ 7,395**	**$ 4,573**	**$ 2,822**
Property and equipment	**$ 23,687**	**$ 11,517**	**$ 12,170**	**$ 22,919**	**$ 10,085**	**$ 12,834**

Additions to owned aircraft in the third quarter of 2020 include three new Airbus A220 aircraft (nine new Airbus A220 aircraft in the nine months ended September 30, 2020).

As described in Note 4, an impairment charge of $295 million was recorded in the nine months ended September 30, 2020 in Special items related to the accelerated retirement of 79 older aircraft and ancillary equipment from Air Canada's fleet and is aggregated with accumulated depreciation in the table above.

Depreciation and amortization recorded in the consolidated statement of operations is detailed as follows.

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Aircraft and flight equipment	$ 201	$ 252	$ 672	$ 715
Buildings and leasehold improvements	13	12	40	35
Ground and other equipment	12	10	35	28
Owned tangible assets	**226**	**274**	**747**	**778**
Air Canada aircraft	108	143	389	402
Regional aircraft	43	45	131	134
Land and buildings	7	6	23	18
Right-of-use assets	**158**	**194**	**543**	**554**
Property and equipment	**384**	**468**	**1,290**	**1,332**
Spare parts and supplies inventory	14	25	47	69
Intangible assets	25	23	77	65
Depreciation and amortization	**$ 423**	**$ 516**	**$ 1,414**	**$ 1,466**

6. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	September 30, 2020 (Canadian dollars in millions)	December 31, 2019 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2021 – 2030	4.85	$ 4,017	$ 3,200
Floating rate U.S. dollar financing	2026 – 2027	2.13	517	544
Fixed rate CDN dollar financing	2026 – 2030	3.78	246	259
Floating rate CDN dollar financing	2021 – 2032	3.15	1,024	264
Fixed rate Japanese yen financing	2027	1.84	148	141
Floating rate Japanese yen financing	2027	3.00	5	8
Convertible notes (b)	2025	4.00	696	-
Senior secured notes – CDN dollar (c)	2023 – 2024	8.18	1,040	200
Senior unsecured notes – U.S. dollar	2021	7.75	533	520
Other secured financing – U.S. dollar (d)	2023	1.90	1,554	737
Other secured financing – CDN dollar (d)	2022	2.81	199	-
Long-term debt		**4.41**	**9,979**	**5,873**
Lease liabilities				
Air Canada aircraft	2020 – 2029	5.56	1,791	1,924
Regional aircraft	2023 – 2035	6.73	1,139	1,149
Land and buildings	2020 – 2078	5.26	428	386
Lease liabilities		**5.92**	**3,358**	**3,459**
Total debt and lease liabilities		**4.79**	**13,337**	**9,332**
Unamortized debt issuance costs and discounts			(175)	(90)
Current portion – Long-term debt			(1,443)	(587)
Current portion – Air Canada aircraft			(342)	(418)
Current portion – Regional aircraft			(189)	(185)
Current portion – Land and buildings			(27)	(28)
Long-term debt and lease liabilities			**$ 11,161**	**$ 8,024**

The above table provides terms of instruments disclosed in Note 10 to the 2019 annual consolidated financial statements of the Corporation as well as terms of instruments concluded during the nine months ended September 30, 2020 and described below.

(a) In September 2020, Air Canada concluded a private offering of two tranches of Enhanced Equipment Trust Certificates ("EETCs"), the proceeds of which were used to purchase equipment notes issued by Air Canada and secured by three Boeing 787-9 aircraft, three Boeing 777-300ER aircraft, one Boeing 777-200LR and nine A321-200 aircraft. The two tranches of certificates have a combined aggregate face amount of US$553 million ($740 million) and a weighted average interest rate of 5.73%. The offering is comprised of Class A Certificates and Class B Certificates. The Class A Certificates totaling US$453 million ($606 million) have an interest rate of 5.25% per annum and a final expected distribution date of April 1, 2029. The Class B Certificates totaling US$100 million ($134 million) have an interest rate of 9.00% per annum and a final expected distribution date of October 1, 2025. Air Canada used the proceeds from this financing together with cash on hand to repay in full the US$600 million ($803 million) 364-day term loan originally put in place in April 2020.

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 new Canadian dollar facility, the bridge financing of $788 million put in place in April 2020 will be repaid concurrently. As at

September 30, 2020, nine Airbus A220 aircraft were financed under this facility with the corresponding bridge financing repaid. Any amount left unpaid under the bridge financing will be repaid following the financing of the 18th A220 aircraft expected in the first quarter of 2021. The security facility has a term of 12 years from delivery of each aircraft on a floating interest basis based on CDOR. This equates to an interest rate of approximately 2.39% using current CDOR rates.

In June 2020, Air Canada completed a private offering of one tranche of Class C EETCs with a combined aggregate face amount of approximately US$316 million, which were sold at 95.002% of par, for net proceeds of $392 million. The Class C tranche ranks junior to the previously issued Series 2015-1, Series 2015-2, and Series 2017-1 EETCs, and is secured by liens on the 27 aircraft financed under these previously issued Series. The Class C EETCs have an interest rate of 10.500% per annum, and a final expected distribution date of July 15, 2026.

(b) In June 2020, Air Canada closed US$748 million ($1,011 million) of convertible unsecured notes ("Convertible Notes"), for net proceeds of $986 million. The Convertible Notes bear interest semi-annually in arrears at a rate of 4.000% per annum and will mature on July 1, 2025, unless earlier repurchased, redeemed or converted. The initial conversion rate of the Convertible Notes is 65.1337 shares per US$1,000 principal amount of Convertible Notes, or an initial conversion price of approximately US$15.35 per share. The Convertible Notes will be convertible, at the Corporation's election, into cash or into Class A Variable Voting shares and/or Class B Voting shares of the Corporation, or a combination thereof.

The Corporation's option to deliver cash or a combination of cash and shares on the conversion date in lieu of shares (based on the daily conversion values for 40 consecutive trading days) gives rise to an embedded derivative financial liability measured separately at fair value through profit or loss. On initial recognition, the derivative financial liability is measured at fair value, and the carrying value of the underlying notes is measured as the difference between this amount and the proceeds of issue. Subsequent to initial recognition, the Corporation measures the derivative financial liability at fair value at each reporting date, recognizing changes in the fair value in Gain (loss) on financial instruments recorded at fair value in the statement of operations, and accretes the carrying value of the underlying notes to their face value using the effective interest method, which results in an effective interest rate of 10.76%. The fair value of the embedded derivative at initial recognition was $320 million and is recorded in Other long-term liabilities. At September 30, 2020, the fair value was $314 million and the Corporation recorded an unrealized gain of $47 million in the third quarter ($6 million unrealized gain for the nine months ended September 30, 2020). Refer to Note 11.

(c) In June 2020, Air Canada completed a private offering of $840 million aggregate principal amount of 9.00% Second Lien Secured Notes due 2024 (the "2024 Notes"), which were sold at 98% of par, for net proceeds of $812 million. The 2024 Notes are secured obligations of Air Canada, secured on a second lien basis by certain real estate interest, ground service equipment, certain airport slots and gate leaseholds, and certain routes and the airport slots and gate leaseholds utilized in connection with those routes.

(d) In March 2020, Air Canada drew down in full on its US$600 million revolving credit facility and its Canadian $200 million revolving credit facility (interest rate of 175 basis points over LIBOR and Bankers Acceptances plus 2%, respectively). The facilities are described further in Note 10b of the 2019 annual consolidated financial statements. These debt balances are included in Other secured financing in the table above.

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	**Three months ended September 30**		**Nine months ended September 30**	
	2020	**2019**	**2020**	**2019**
Interest on debt	$ 147	$ 72	$ 317	$ 217
Interest on lease liabilities				
Air Canada aircraft	26	31	84	97
Regional aircraft	18	21	58	63
Land and buildings	5	5	15	16
Interest expense	**$ 196**	**$ 129**	**$ 474**	**$ 393**

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**	
	2020	**2019**	**2020**	**2019**
Short-term leases	$ 4	$ 39	$ 29	$ 68
Variable lease payments not included in lease liabilities	8	8	22	23
Expense related to leases (included in Other operating expenses)	**$ 12**	**$ 47**	**$ 51**	**$ 91**

Total cash outflows for payments on lease liabilities was $210 million for the three months ended September 30, 2020 ($658 million for the nine months ended September 30, 2020; $218 million and $652 million for the three and nine month periods ended September 30, 2019), of which $161 million was for principal repayments ($501 million for the nine months ended September 30, 2020; $161 million and $476 million for the three and nine month periods ended September 30, 2019).

Maturity Analysis

Principal and interest repayment requirements as at September 30, 2020 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the September 30, 2020 closing rate of CDN$1.3319.

Principal **(Canadian dollars in millions)**	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt obligations[1]	$ 93	$ 1,478	$ 666	$ 2,352	$ 1,252	$ 4,437	$ 10,278
Air Canada aircraft	98	315	253	244	234	647	1,791
Regional aircraft	57	175	171	173	145	418	1,139
Land and buildings	9	25	24	22	22	326	428
Lease liabilities	$ 164	$ 515	$ 448	$ 439	$ 401	$ 1,391	$ 3,358
Total long-term debt and lease liabilities	**$ 257**	**$ 1,993**	**$ 1,114**	**$ 2,791**	**$ 1,653**	**$ 5,828**	**$ 13,636**

Interest **(Canadian dollars in millions)**	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
Long-term debt obligations[1]	$ 113	$ 408	$ 360	$ 325	$ 236	$ 429	$ 1,871
Air Canada aircraft	23	75	58	46	35	47	284
Regional aircraft	19	65	52	40	29	92	297
Land and buildings	5	21	20	19	18	222	305
Lease liabilities	$ 47	$ 161	$ 130	$ 105	$ 82	$ 361	$ 886
Total long-term debt and lease liabilities	**$ 160**	**$ 569**	**$ 490**	**$ 430**	**$ 318**	**$ 790**	**$ 2,757**

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

Principal repayments for 2021 include $371 million remaining on the April 2020 bridge financing and, subsequent to delivery of the remaining nine Airbus A220 aircraft, a secured facility is in place that allows Air Canada to defer this debt repayment over the next 12 years from the delivery date.

The Corporation is committed to additional aircraft leases which have yet to commence. The total commitment is approximately $358 million based on estimates regarding timing of delivery and rent. The aircraft lease terms range from eight to ten years.

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, 2020	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and renewed contracts)	Sep. 30, 2020
Long-term debt	$ 10,268	$ 1,114	$ (1,272)	$ -	$ (149)	$ 18	$ -	$ 9,979
Air Canada aircraft	1,951	-	(113)	-	(37)	-	(10)	1,791
Regional aircraft	1,210	-	(43)	-	(23)	-	(5)	1,139
Land and buildings	433	-	(5)	-	-	-	-	428
Lease liabilities	3,594	-	(161)	-	(60)	-	(15)	3,358
Unamortized debt issuance costs / discounts	(178)	-	-	(13)	-	16	-	(175)
Total liabilities from financing activities	**$ 13,684**	**$ 1,114**	**$ (1,433)**	**$ (13)**	**$ (209)**	**$ 34**	**$ (15)**	**$ 13,162**

(Canadian dollars in millions)		Cash Flows			Non-Cash Changes			
	Dec. 31, 2019	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and renewed contracts)	Sep. 30, 2020
Long-term debt	$ 5,873	$ 6,046	$ (1,710)	$ -	$ 63	$ (293)	$ -	$ 9,979
Air Canada aircraft	1,924	-	(345)	-	50	-	162	1,791
Regional aircraft	1,149	-	(137)	-	28	-	99	1,139
Land and buildings	386	-	(19)	-	-	-	61	428
Lease liabilities	3,459	-	(501)	-	78	-	322	3,358
Unamortized debt issuance costs / discounts	(90)	(38)	-	(75)	-	28	-	(175)
Total liabilities from financing activities	**$ 9,242**	**$ 6,008**	**$ (2,211)**	**$ (75)**	**$ 141**	**$ (265)**	**$ 322**	**$ 13,162**

7. INCOME TAXES

Income Tax (Expense) Recovery

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

	Three months ended September 30		Nine months ended September 30	
(Canadian dollars in millions)	**2020**	**2019**	**2020**	**2019**
Current income tax (expense) recovery	$ (4)	$ (93)	$ 34	$ (123)
Deferred income tax (expense) recovery	140	(149)	58	(156)
Income tax (expense) recovery	**$ 136**	**$ (242)**	**$ 92**	**$ (279)**

As a result of the COVID-19 pandemic, there is considerable negative evidence relating to losses incurred in the current year and uncertainty exists as to when conditions will improve. Such negative evidence currently outweighs the positive historical evidence and, accordingly, net deferred tax assets are not being recognized, commencing from the second quarter of 2020. The future tax deductions underlying the unrecognized deferred income tax assets remain available for use in the future to reduce taxable income. The deferred income tax expense recorded in Other comprehensive income (loss) related to remeasurements on employee benefit liabilities is offset by a deferred income tax recovery which was recorded through the statement of operations. As such, a deferred income tax recovery of $140 million was recorded during the third quarter, which is offset by a deferred income tax expense of $132 million recorded in Other comprehensive income (loss).

The applicable statutory tax rate is 26.59% (2019 – 26.73%). The Corporation's applicable tax rate is the Canadian combined tax rate applicable in the jurisdiction in which the Corporation operates. The income tax expense in the consolidated statement of operations differs from the amount that would have resulted from applying the statutory income tax rate to the loss before income taxes in the consolidated statement of operations primarily due to not recognizing all deferred income tax assets.

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

	Three months ended September 30		Nine months ended September 30	
(Canadian dollars in millions)	**2020**	**2019**	**2020**	**2019**
Remeasurements on employee benefit liabilities - current income tax (expense) recovery	$ (5)	$ -	$ (18)	$ -
- deferred income tax (expense) recovery	(132)	(45)	(173)	128
Remeasurements on equity investments - deferred income tax (expense) recovery	-	-	4	(3)
Fuel derivatives designated as cash flow hedges - deferred income tax (expense) recovery	-	(2)	-	-
Income tax (expense) recovery	**$ (137)**	**$ (47)**	**$ (187)**	**$ 125**

8. 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 (which had received approval from the Toronto Stock Exchange for the renewal of its previous normal course issuer bid) for its Class A variable voting shares and Class B voting shares (collectively the "shares"). Air Canada's normal course issuer bid expired in May 2020 and Air Canada did not renew it.

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.

In the third quarter of 2019, the Corporation purchased, for cancellation, a total of 2,111,800 shares at an average cost of $43.15 per share for aggregate consideration of $91 million (6,426,287 shares at an average cost of $38.87 per share for aggregate consideration of $250 million for the nine months ended September 30, 2019). The excess of the cost over the average book value of $85 million ($231 million for the nine months ended September 30, 2019) was charged to Retained earnings.

Share Offering

In June 2020, Air Canada completed an underwritten marketed public offering of 35,420,000 shares at a price of $16.25 per share, for aggregate gross proceeds of $576 million, which includes the exercise in full by the underwriters of their over-allotment option to purchase up to 4,620,000 shares for gross proceeds of $75 million. After deduction of the underwriters' fees and expenses of the offering, net proceeds were $552 million.

9. EARNINGS (LOSS) PER SHARE

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

(Canadian dollars in millions, except per share amounts)	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Numerator:				
Net income (loss) for the period:	$ (685)	$ 636	$ (3,486)	$ 1,324
Effect of assumed conversion of convertible notes	(39)	-	15	-
Remove anti-dilutive impact	39	-	(15)	-
Adjusted numerator for diluted earnings (loss) per share:	(685)	636	(3,486)	1,324
Denominator:				
Weighted-average shares	297	267	277	269
Effect of potential dilutive securities:				
Stock options	1	3	1	4
Convertible notes	49	-	21	-
Total potential dilutive securities	50	3	22	4
Remove anti-dilutive impact	(50)	-	(22)	-
Adjusted denominator for diluted earnings (loss) per share	297	270	277	273
Basic earnings (loss) per share	**$ (2.31)**	**$ 2.38**	**$ (12.58)**	**$ 4.93**
Diluted earnings (loss) per share	**$ (2.31)**	**$ 2.35**	**$ (12.58)**	**$ 4.86**

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.

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

10. COMMITMENTS

Capital Commitments

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at September 30, 2020. U.S. dollar amounts are converted using the September 30, 2020 closing rate of CDN$1.3319. Minimum future commitments under these contractual arrangements are shown below.

(Canadian dollars in millions)	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
Capital commitments	$ 281	$ 943	$ 1,111	$ 360	$ -	$ -	**$ 2,695**

Air Canada and Airbus Canada Limited Partnership (formerly Bombardier C-Series Aircraft Limited Partnership) concluded an amendment to the purchase agreement for Airbus A220-300 aircraft effective in early November 2020. Under the amended agreement, Air Canada has deferred 18 aircraft deliveries over 2021 and 2022 and will not be purchasing the last 12 Airbus A220 aircraft included in the firm order of 45 aircraft. At September 30, 2020, Air Canada had taken delivery of 10 Airbus A220 aircraft and expects to take delivery of an additional five aircraft in the fourth quarter of 2020. In early November 2020, Air Canada amended its agreement with Boeing to cancel 10 Boeing 737 MAX 8 aircraft deliveries from its firm order of 50 aircraft and to defer its remaining 16 aircraft deliveries over the late 2021 to 2023 period. The capital commitments table above has been updated to reflect these changes.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 18 to the 2019 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 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Share forward contracts		$ (1)	$ 4	$ (34)	$ 18
Embedded derivative on convertible notes	Note 6	47	-	6	-
Gain (loss) on financial instruments recorded at fair value		**$ 46**	**$ 4**	**$ (28)**	**$ 18**

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, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. At September 30, 2020, unrestricted liquidity was $8,189 million comprised of cash and cash equivalents, Short-term investments, and Long-term investments.

Given the impact of the COVID-19 pandemic on passenger revenues and advance ticket sales, Air Canada updated its definition of the minimum cash required to support ongoing business operations. The minimum cash estimate has now been updated to a fixed amount of $2,400 million, as compared to the previous minimum cash estimate of 20% of trailing 12 months operating revenue. This minimum cash estimate considers the Corporation's various financial covenants and provides adequate coverage for advance ticket sales and to meet Air Canada's liquidity needs. Starting in the third quarter of 2020, Air Canada no longer reports on excess cash as the amount is not meaningful in the current environment. As a result, as an update to Note 20 of the 2019 annual consolidated financial statements, the Corporation is updating its definition of capital as the sum of long-term debt and lease liabilities and the book value of Shareholders' equity.

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

- As described in Notes 6 and 8, completed financing transactions raising a total of $5.5 billion of liquidity since the start of the COVID-19 pandemic in the first quarter of 2020. Additionally, in October 2020, Air Canada completed sale and leaseback transactions for nine Boeing 737 MAX 8 aircraft for total proceeds of US$365 million.

- Significantly reduced capacity since March 2020 when compared to the same period of 2019. The airline continues to proactively adjust capacity as required.

- In addition to the projected cost savings associated with capacity reductions, including workforce reductions and other programs, Air Canada has initiated a company-wide cost reduction and capital deferral and reduction program.

- Suspended purchases under its share repurchase program in early March 2020 and did not renew its issuer bid upon its expiry in May 2020.

Fuel Price Risk Management

There was no fuel hedging activity during the nine months ended September 30, 2020. There were no outstanding fuel derivatives as at September 30, 2020 or at December 31, 2019.

In 2019, the Corporation purchased crude-oil call options covering approximately 50% of the Corporation's anticipated purchases of jet fuel for the third quarter of 2019. The cash premium related to these contracts was $14 million. A loss of $14 million was reclassified from other comprehensive income to Aircraft fuel expense in the third quarter of 2019. No hedging ineffectiveness was recorded.

Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at September 30, 2020, as further described below, approximately 69% of net U.S. cash outflows are hedged for the remainder of 2020, 71% for 2021, and 13% for 2022 resulting in derivative coverage of 64% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 73% coverage over the next 18 months.

As at September 30, 2020, the Corporation had outstanding foreign currency options and swap agreements, settling in 2020, 2021, and 2022, to purchase at maturity $3,907 million (US$2,934 million) of U.S. dollars at a weighted average rate of $1.3601 per US$1.00 (as at December 31, 2019 – $6,599 million (US$5,080 million) with settlements in 2020 and 2021 at a weighted average rate of $1.2775 per $1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and YUAN (EUR €419 million, GBP £29 million, JPY ¥13,141 million, and CNH ¥405 million) which settle in 2020, 2021, and 2022 at weighted average rates of €1.1295, £1.2995, ¥0.0096, and ¥0.1458 per $1.00 U.S. dollar respectively (as at December 31, 2019 - EUR €335 million, GBP £202 million, JPY ¥46,655 million, CNH ¥286 million and AUD $209 million with settlement in 2020 and 2021 at weighted average rates of €1.1577, £1.3238, ¥0.0096, ¥0.1469, and AUD $0.7092 respectively per $1.00 U.S. dollar).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at September 30, 2020 was $335 million in favour of the counterparties (as at December 31, 2019 – $114 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 2020, Foreign exchange gain (loss) related to these derivatives was $121 million loss ($208 million loss for the nine month period ended September 30, 2020; $133 million gain and $163 million gain respectively for the three and nine month periods ended September 30, 2019). In the third quarter of 2020, foreign exchange derivative contracts cash settled with a net fair value of $31 million in favour of the counterparties ($13 million for the nine month period ended September 30, 2020 in favour of the Corporation; $43 million and $134 million in favour of the Corporation respectively for the three and nine month periods ended September 30, 2019).

The Corporation also holds U.S. cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash and short-term investment balances as at September 30, 2020 amounted to $1,750 million (US$1,315 million) ($1,123 million (US$862 million) as at December 31, 2019). During the three months ended September 30, 2020, a loss of $43 million ($13 million gain for the nine month period ended September 30, 2020; gain of $9 million and loss of $21 million for the three and nine month periods ended September 30, 2019) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short-term and long-term investment balances held.

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments.

The carrying amounts of derivatives are equal to their fair value, which is based on the amount at which they could be settled based on estimated market rates at September 30, 2020.

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 $9,649 million compared to its carrying value of $9,979 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 2019 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the three months ended September 30, 2020.

		Fair value measurements at reporting date using:		
(Canadian dollars in millions)	**September 30, 2020**	**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	$ 817	$ –	$ 817	$ –
Short–term investments	3,985	–	3,985	–
Long–term investments	414	–	414	–
Equity investment in Chorus	34	34	–	–
Derivative instruments				
Share forward contracts	14	–	14	–
Total	**$ 5,264**	**$ 34**	**$ 5,230**	**$ -**
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	335	–	335	–
Embedded derivative on convertible notes	314	–	314	–
Total	**$ 649**	**$ –**	**$ 649**	**$ –**

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.

12. 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**	
	2020	**2019**	**2020**	**2019**
Canada	$ 316	$ 1,545	$ 1,378	$ 3,975
U.S. Transborder	28	995	793	2,892
Atlantic	111	1,613	819	3,526
Pacific	30	739	440	1,894
Other	22	249	477	970
	$ 507	**$ 5,141**	**$ 3,907**	**$ 13,257**

Cargo Revenues **(Canadian dollars in millions)**	**Three months ended September 30**		**Nine months ended September 30**	
	2020	**2019**	**2020**	**2019**
Canada	$ 24	$ 31	$ 61	$ 86
U.S. Transborder	6	12	27	37
Atlantic	103	61	256	189
Pacific	72	60	255	177
Other	11	13	35	42
	$ 216	**$ 177**	**$ 634**	**$ 531**

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.

13. ACQUISITION OF AEROPLAN

On January 10, 2019, Air Canada completed its purchase of Aimia Canada Inc. (now Aeroplan Inc.). The aggregate purchase price for the acquisition consisted of $450 million in cash plus $67 million in cash for closing adjustments (total purchase consideration of $517 million). The acquisition also included the assumption of the Aeroplan Miles liability.

Concurrently with the conclusion of the Aeroplan purchase, Air Canada, Aeroplan, The Toronto-Dominion Bank ("TD Bank"), Canadian Imperial Bank of Commerce ("CIBC"), and Visa Canada Corporation ("Visa") finalized various commercial agreements relating to and in support of the acquisition, including credit card loyalty program and network agreements for future participation in the Aeroplan program. Similarly, in the first quarter of 2019, Air Canada, Aeroplan, and AMEX Bank of Canada ("AMEX") concluded agreements enabling AMEX's continued participation in the Aeroplan program. Air Canada received payments from TD Bank, CIBC, Visa, and AMEX in the aggregate amount of $1,212 million. This consideration has been accounted for as deferred revenue and will be amortized into passenger revenue over the terms of the related agreements.

In addition, TD Bank and CIBC made payments to the Corporation in the aggregate amount of $400 million as prepayments to be applied towards future monthly payments in respect of Aeroplan Miles. This consideration is accounted for as a contract liability within Aeroplan and other deferred revenue.

14. EQUITY INVESTMENT IN CHORUS

In February 2019, Air Canada concluded an agreement to amend and extend its capacity purchase agreement with Jazz, a wholly-owned subsidiary of Chorus Aviation Inc., by ten years from January 1, 2026 to December 31, 2035.

Concurrently, Air Canada subscribed for 15,561,600 class B voting shares in the capital of Chorus, representing, at time of issuance, approximately 9.99% of the total issued and outstanding voting shares of Chorus. This represented an investment of $97 million by Air Canada.

15. DEFINITIVE ARRANGEMENT AGREEMENT FOR THE ACQUISITION OF TRANSAT

On October 10, 2020, Air Canada announced amendments to the transaction with Transat A.T. Inc. (Transat) previously disclosed in Note 25 of the 2019 annual consolidated financial statements. Under the binding agreement, unanimously approved by the Board of Directors of Transat, Air Canada will acquire all the shares of Transat for $5.00 per share, payable at the option of Transat shareholders in cash or shares of Air Canada at a fixed exchange ratio of 0.2862 Air Canada share for each Transat share (representing a price for the Air Canada shares of $17.47). As at the time of the announcement, the value of the transaction was approximately $190 million.

Assuming closing of the acquisition of Transat and that all Transat shareholders elect to receive Air Canada shares as consideration for their Transat shares (and that no holders of options of Transat exercise their options before the applicable election deadline and elect to receive Air Canada shares for the Transat shares underlying their options), Air Canada would expect to issue an aggregate of up to 10,803,217 shares in connection with the acquisition (based on 37,747,090 outstanding shares of Transat, as reported by Transat).

The transaction remains subject to shareholder approval, court approval, satisfaction of customary listing conditions of the Toronto Stock Exchange, certain customary and other conditions, and regulatory approvals including the ongoing approval process of regulatory authorities in Canada and the European Union. If such approvals are obtained and conditions are met, the transaction is expected to be completed in late January or early February 2021.