ACE AVIATION HOLDINGS INC.
THIRD QUARTER 2004
MANAGEMENT'S DISCUSSION & ANALYSIS

ACE Aviation Holdings Inc. (ACE) was incorporated on June 29, 2004 for the purposes of becoming the parent company of Air Canada and its subsidiaries upon the implementation of the consolidated plan of reorganization, compromise and arrangement. This Interim Management's Discussion and Analysis (MD&A) covers Air Canada's operations and cash flows for the quarter ended September 30, 2004 as well as those of ACE on September 30, 2004. On September 30, 2004, ACE became the successor and parent holding company of the reorganized Air Canada and its subsidiaries. As a result, the consolidated statement of financial position as at September 30, 2004 is that of ACE and is presented on a fresh start reporting basis as discussed further below. This discussion is as of November 12, 2004.

These financial statements are prepared using the accounting policies as described in Note 2 to the 2003 Annual Consolidated Financial Statements of Air Canada and Note 4 to the Interim Third Quarter 2004 Consolidated Financial Statements. All amounts are expressed in Canadian currency unless indicated otherwise.

For further information on ACE's and Air Canada's public disclosure filings, please consult **www.sedar.com**.

RESULTS OF OPERATIONS OF AIR CANADA

	3rd Quarter, 2004	3rd Quarter, 2003	% Change
	($ millions, except per share figures, RASM and CASM)		
Operating Revenues			
Passenger	2,123	1,901	12
Cargo	142	122	16
Other	231	205	13
	2,496	2,228	12
Operating Expenses			
Salaries, wages and benefits	630	657	(4)
Aircraft fuel	462	324	43
Aircraft rent	157	257	(39)
Other	1,004	973	3
	2,253	2,211	2
Operating income before reorganization and restructuring items	243	17	
Reorganization and restructuring items	(313)	(273)	
Non-operating expense	(133)	(20)	
Foreign exchange gain on non-compromised long-term monetary items	123	16	
Provision for income taxes	(1)	(3)	
Loss for the period	(81)	(263)	
Loss per share - basic and diluted	($0.67)	($2.18)	
Weighted average Air Canada common shares used for computation - basic and diluted	120	120	

(millions)

	3rd Quarter, 2004	3rd Quarter, 2003	% Change
Revenue Passenger Miles (millions)	12,853	11,617	11
Available Seat Miles (millions)	15,993	15,156	6
Passenger Load Factor (%)	80.4	76.6	3.8 pp
Passenger revenue per available seat mile (RASM) (cents)	13.3	12.5	6
Operating expense per available seat mile (CASM) (cents)	14.1	14.6	(3)
Operating expense per available seat mile excluding fuel expense (cents)	11.2	12.4	(10)

The consolidated statement of operations for the three months and nine months ended September 30, 2004 reflects the results of Air Canada and its subsidiaries as well as the results of operations of ACE on September 30, 2004.

For the quarter ended September 30, 2004, ACE reported operating income before reorganization and restructuring items of $243 million, an improvement of $226 million from the third quarter of 2003. EBITDAR improved $151 million over the 2003 quarter. Refer to Note (1) on page 6 for additional information on EBITDAR. The major factors leading to the improvement in operating results versus the third quarter of 2003 were improvements in passenger revenue per available seat mile (RASM) and a reduction to operating expense per available seat mile (CASM), of 6 per cent and 3 per cent respectively. Passenger revenues in the third quarter 2003 were adversely impacted by the continuing impact of the SARS crisis on passenger bookings and by increased competition. Operating expenses increased 2 per cent from the third quarter of 2003 despite a 35 per cent increase in the price of fuel per litre and an ASM capacity increase of 6 per cent. The major factors in the unit cost improvement were lower labour expenses, reduced aircraft rent and other cost reduction initiatives undertaken during the restructuring process. These cost reduction initiatives largely began to take effect in the third quarter of 2003.

As a result of restructuring under the Companies' Creditors Arrangement Act (CCAA), the financial results in this quarter reflect significant reorganization and restructuring items directly associated with the rearranging of Air Canada's business affairs while under the Court's protection. Air Canada emerged from CCAA proceedings on September 30, 2004 and this is the last quarter that these mainly non-cash items will be recorded. Reorganization and restructuring items represent revenues, expenses, gains and losses and provisions for losses that can be directly associated with the reorganization and restructuring of the business under CCAA. For the quarter, reorganization and restructuring items amounted to $313 million compared to $273 million in the 2003 quarter.

Including reorganization and restructuring items, the net loss for the third quarter was $81 million compared to a net loss of $263 million in the third quarter of 2003.

Operating Revenues

For the quarter, consolidated passenger revenues increased $222 million or 12 per cent compared to the third quarter of 2003. The improvement in passenger revenues was due to a progressive recovery in all markets with the exception of the US transborder market. In the third quarter of 2003, passenger revenues were negatively impacted by lower domestic and international demand resulting from the SARS crisis and increased capacity by low cost carriers.

For the 2004 quarter, system passenger traffic increased 11 per cent on a 6 per cent increase in ASM capacity producing a 3.8 percentage point improvement in load factor. Yield as measured by passenger revenue per RPM (Yield) increased 1 per cent reflecting yield growth in the Pacific, Atlantic and domestic markets. The Yield increase also reflects a greater proportion of long-haul flying which has a lower Yield per RPM. With the major improvement in load factor, system RASM rose 6 per cent over the third quarter of 2003.

The table below describes, by major market, percentage changes in third quarter passenger revenues, capacity as measured in available seat miles (ASMs), traffic as measured by revenue passenger miles (RPMs), passenger load factor as measured by RPMs divided by ASMs, Yield as measured by passenger revenue per RPM, and RASM as measured by passenger revenue per ASM, as compared to the 2003 quarter.

Operating Statistics - Third Quarter of 2004 compared to Third Quarter of 2003

	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp change	Yield Per RPM % Change	RASM % Change
Canada	3	(8)	(1)	5.7 pp	4	12
US	(1)	1	9	5.5 pp	(9)	(1)
Atlantic	6	(4)	(3)	1.1 pp	9	11
Pacific	113	90	86	(1.8) pp	14	12
Other	25	18	23	3.0pp	0	4
System	**12**	**6**	**11**	**3.8 pp**	**1**	**6**

The table below describes, by major market, the percentage change from the prior year in passenger revenues for the seven most recent quarters.

Passenger Revenue % Change Year-over-Year by Quarter

	Quarter 1 2003	Quarter 2 2003	Quarter 3 2003	Quarter 4 2003	Quarter 1 2004	Quarter 2 2004	Quarter 3 2004
Canada	(12)	(26)	(17)	(13)	(9)	8	3
US	(5)	(27)	(24)	(19)	(13)	5	(1)
Atlantic	(1)	(11)	(4)	(5)	(5)	6	6
Pacific	(3)	(63)	(52)	(13)	15	162	113
Other	21	(8)	3	18	24	38	25
System	**(6)**	**(26)**	**(19)**	**(12)**	**(5)**	**15**	**12**

Third quarter 2004 domestic passenger revenues were up $23 million or 3 per cent from 2003. Domestic traffic was down 1 per cent while ASM capacity was reduced by 8 per cent. This resulted in a passenger load factor of 78.7 per cent, a 5.7 percentage point increase from the 2003 quarter. RASM increased 12 per cent reflecting the rise in passenger load factor and a domestic Yield increase of 4 per cent. In the 2003 quarter, domestic passenger traffic and Yield continued to be adversely impacted by the SARS crisis.

US transborder passenger revenues were down $5 million or 1 per cent. US transborder showed a traffic increase of 9 per cent on an ASM capacity increase of 1 per cent resulting in a passenger load factor of 73.0 per cent, an improvement of 5.5 percentage points from the 2003 quarter. US transborder Yield declined 9 per cent reflecting a competitive market with increased US carrier capacity. Air Canada has responded to this environment by implementing a simplified fare structure consistent with Air Canada's domestic fare strategy. US transborder RASM was down by 1 per cent as higher load factors did not fully offset the lower Yield per RPM.

Atlantic, Pacific and "Other" international passenger revenues were $204 million or 27 per cent above the third quarter of 2003. Atlantic revenues increased $31 million or 6 per cent on 9 per cent increase in Yield and a 3 per cent decrease in traffic. The reduction in traffic was due to a 4 per cent reduction to ASM capacity reflecting the suspension of service to Italy, Spain and Copenhagen. Atlantic RASM showed an increase of 11 per cent. Pacific revenues were up $152 million or 113 per cent. Pacific traffic rose 86 per cent on a 90 per cent increase in ASM capacity. Pacific Yield rose 14 per cent and RASM increased 12 per cent. In the third quarter of 2003, the Pacific market was severely adversely impacted by the continuing impact of the SARS crisis which resulted in large reductions in traffic and capacity. South Pacific, Caribbean, Mexico and South America ("Other") revenues increased $21 million or 25 per cent reflecting a traffic increase of 23 per cent on an ASM capacity increase of 18 per cent. This growth is mainly due to the addition of new routes to South America as well as to increased service to traditional leisure destinations. Yield was unchanged from the 2003 quarter. "Other" RASM was up 4 per cent versus the third quarter of 2003 mainly due to the 3.0 percentage point improvement in passenger load factor.

Cargo revenues increased $20 million or 16 per cent from the third quarter of 2003 mainly due to greater flying capacity in the Pacific market over 2003.

Other revenues increased $26 million or 13 per cent in the third quarter of 2004 largely due to greater revenues from Aeroplan reflecting higher point redemptions and, to a lesser extent, increased revenues from Air Canada Technical Services. The proceeds from the sale of Aeroplan miles to third parties are deferred and recognized as revenue as these miles are redeemed.

For the third quarter of 2004, total operating revenues increased $268 million or 12 per cent from the 2003 quarter.

Operating Expenses

Total operating expenses increased $42 million or 2 per cent from the third quarter of 2003 despite an increase in fuel expense of $138 million and a 6 per cent increase to consolidated ASM capacity. Third quarter 2004 unit cost, as measured by operating expense per ASM, was 3 per cent below the 2003 level (down 10 per cent, excluding fuel expense). Notable changes from the third quarter of 2003 are as follows:

- Aircraft fuel expense increased $138 million or 43 per cent mainly due to continued record high fuel prices and the 6 per cent increase in ASM flying capacity versus last year. The average base fuel price increase of 41 per cent or $138 million and the volume increase of 5 per cent or $18 million was partly offset by a reduction of $17 million due to the favourable impact of a stronger Canadian dollar.

- Salaries and wages (excluding benefits) expense was down $28 million or 6 per cent from the third quarter of 2003 reflecting a reduction of over 1,400 average full-time equivalent (FTE) employees or 4 per cent as well as salary reductions for unionized and non-unionized labour groups. Salaries and wages expense per ASM was reduced by 10 per cent from the same quarter of 2003. Compared to the fourth quarter of 2002, average FTE employee counts in the quarter were down over 7,700 FTE employees or 19 per cent.

- Aircraft rent expense was down $100 million or 39 per cent largely due to the reclassification of certain aircraft leases from operating to capital leases which accounted for approximately $65 million of the decline. Other reductions included the impact of aircraft returns and renegotiated lease rates. As a result of the reclassification, aircraft depreciation increased by approximately $34 million and interest expense by approximately $37 million. In the case of 47 aircraft lease amendments, the cost of the pre-CCAA agreements continued to be recorded in operating expense during the quarter as the effectiveness of the lease amendments was conditional upon Air Canada's emergence from Court protection. Effective October 1, 2004, recognition of these lease amendments will allow ACE to record lower lease expenses in the future.

- Airport and navigation fees decreased $8 million or 4 per cent on a 3 per cent decrease in consolidated aircraft departures. The decrease was, in large part, due to a favourable prior period adjustment of $22 million which was partially offset by higher fees for air navigation services and higher landing and general terminal charges primarily at Toronto's Pearson International Airport (Pearson), Air Canada's main hub. At Pearson, landing fees increased by 25 per cent per metric tonne and general terminal charges rose 15 per cent per seat for domestic and international arrivals compared to the third quarter of 2003.

- Communications and Information Technology expense was down $19 million or 21 per cent largely as a result of increased direct passenger sales via the internet, renegotiated contract rates for information technology and communication services, a decrease in the level of information technology maintenance costs and the favourable impact of a stronger Canadian dollar.

- Depreciation expense increased $25 million or 28 per cent mainly due to an increase of approximately $34 million due to the reclassification of certain aircraft leases from operating to capital leases partially offset by lower software and computer amortization costs.

Reorganization and Restructuring Items

Since Air Canada's filing under CCAA on April 1, 2003, Air Canada has recorded significant reorganization and restructuring items directly associated with the rearranging of its business affairs while under the Court's protection. Reorganization items recorded in the quarter relate mainly to lease deficiency claims, labour-related items and professional fees.

For the third quarter of 2004, reorganization and restructuring items amounted to $313 million of which $281 million represents non-cash items. Air Canada emerged from CCAA proceedings on September 30, 2004 and this is the last quarter that these mainly non-cash items will be recorded.

Non-Operating Expense

Non-operating expense amounted to $133 million in the third quarter of 2004, a $113 million increase from the third quarter of 2003.

Net interest expense increased $48 million due largely to an increase of approximately $37 million as a result of the reclassification of certain aircraft leases from operating to capital leases.

In the third quarter of 2004, provisions for loss on sale of assets of $62 million were recorded related mainly to non-operating aircraft and inventory. In the third quarter of 2003, loss on disposal of assets of $1 million was mainly as a result of provisions of $28 million related to the write-down of non-operating aircraft, spare parts and other investments offset by a gain of $29 million related to an earn out provision on the sale of Galileo Canada which occurred in 1998.

Foreign Exchange Gains

In the 2004 quarter, Air Canada recorded gains of $123 million from foreign exchange fluctuations on non-compromised long-term monetary items attributable to a stronger Canadian dollar as at September 30, 2004 versus the US dollar as at June 30, 2004. This compared to gains of $16 million recorded in the third quarter of 2003.

(1) NON-GAAP EARNINGS (LOSSES)

EBITDAR

EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent) is a non-GAAP (Generally Accepted Accounting Principles) financial measure commonly used in the airline industry to view operating results before aircraft rent and ownership costs as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and asset acquisitions.

EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have any standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies. EBITDAR, before reorganization and restructuring items, is reconciled to operating income before reorganization and restructuring items as follows:

	Third Quarter 2004	Third Quarter 2003	Change
GAAP operating income before reorganization and restructuring items	243	17	226
Add back:			
Depreciation, amortization and obsolescence	114	89	25
Aircraft rent	157	257	(100)
EBITDAR	514	363	151

YEAR-TO-DATE

For the first nine months of 2004, operating income before reorganization and restructuring items amounted to $120 million representing a $727 million improvement from the $607 million operating loss before reorganization and restructuring items recorded in 2003. The net loss, which included $871 million of reorganization and restructuring items, was $895 million versus a net loss of $1,099 million in the prior year which included $490 million of reorganization and restructuring items.

BALANCE SHEET ANALYSIS

The consolidated balance sheet as of September 30, 2004 represents the accounts of ACE and its subsidiaries on a post-emergence fresh start reporting basis. The consolidated balance sheet as of December 31, 2003 represents the accounts of Air Canada and its subsidiaries. ACE adopted fresh start reporting on September 30, 2004. As a result, all assets and liabilities of ACE have been reported at fair values except for future income taxes which are reported in accordance with the requirements of Section 3465 of the CICA Handbook, Income Taxes. Refer to Note 5 to the Interim Third Quarter 2004 Consolidated Financial Statements for additional information.

As a result of the implementation of the Plan and the adoption of fresh start reporting, a revaluation adjustment of $4,439 million has been recorded as a credit to Shareholders' Equity and the deficit of Air Canada as at September 30, 2004 has been reclassified to Shareholders' Equity, resulting in a capital deficiency of $611 million.

The implied value of various classes of shares issued by ACE, derived from the Investment Agreement, the Rights Offering and the Standby Purchase Agreement, is approximately $2 billion. Shareholders' Equity as presented on the Consolidated Statement of Financial Position of ACE under Canadian GAAP does not reflect this implied value because:

- Due to certain characteristics of the Convertible Preferred Shares issued pursuant to the Investment Agreement, Canadian GAAP requires that the instrument be presented as a compound instrument, and as such, $127 million is presented as a financial liability and not in Shareholders' Equity. In addition, the fair value of the enterprise as a whole would exclude the liability component of the ACE Preferred Shares.

- Under fresh start reporting, Canadian GAAP does not permit goodwill to be recorded even if the fair value of net assets is less than the fair value of the enterprise as a whole. This presentation differs from US GAAP for fresh start reporting where goodwill is recorded as the excess of the fair value of the Corporation over the fair value of net assets. The Consolidated Statement of Financial Position under US GAAP will report share capital of $1,894 million and goodwill of $2,505 million.

The combination of the above factors and the existing Shareholders' Deficit as reported prior to the adoption of fresh start reporting contribute to the reporting of a capital deficiency of $611 million, which does not reflect the implied value of the various classes of shares by ACE.

CASH FLOW ANALYSIS

The Consolidated Statement of Cash Flow for the three and nine months ended September 30, 2004 and 2003 reflect the cash flows of Air Canada and its subsidiaries as well as cash flows of ACE on September 30, 2004 upon emergence and implementation of the Plan.

For the quarter ended September 30, 2004, cash flows from operations amounted to $183 million compared to $27 million in the quarter ended September 30, 2003, an increase of $156 million. Improved operating results were the main reason for the cash flow improvement.

Cash Flows from Financing Activities

In the quarter ended September 30, 2004, Air Canada obtained financing of $116 million for the purchase of one Airbus A340-500 aircraft. The purchase was 100 per cent financed through a conditional sales agreement.

In addition, in the quarter ended September 30, 2004, reduction of long-term debt and capital lease obligations totaled $49 million compared to $64 million in the quarter ended September 30, 2003.

Exit Financing Transactions

Upon implementation of the Plan on September 30, 2004, the following equity and other financing transactions were consummated for proceeds totaling $982 million.

- Financing transactions with General Electric Capital Corporation and its affiliates (GECC) total an outflow of $63 million. Net financing proceeds received under the Exit Facility of $540 million total $227 million, which includes repayment of the debtor-in-possession secured financing of $300 million and fees of $13 million. In addition, under the Global Restructuring Agreement (GRA), Air Canada acquired two previously leased aircraft from GECC for an aggregate amount of $353 million. GECC provided financing in the amount of $63 million. The difference of $290 million was paid to GECC on September 30, 2004, which includes the repayment of the convertible note under the GRA.

- Rights Offering and Standby Purchase Agreement with Deutsche Bank Securities Inc. for net proceeds of $852 million, after deducting fees of $13 million.

- Investment Agreement with Cerberus Capital Management L.P. for net proceeds of $238 million, after deducting fees of $12 million. In addition, pursuant to the Investment Agreement, these proceeds were used, in part, to pay an amount of $45 million to GECC in consideration for damages suffered by GECC under certain leases. As a result of this payment, the warrants as outlined in the GRA were not issued.

Cash Flows used for Investing Activities

In the quarter ended September 30, 2004, additions to property and equipment amounted to $142 million. Included in this amount are $116 million for the purchase of an Airbus A340-500 aircraft and $6 million for progress payments on the Embraer aircraft. Other aircraft-related spending amounted to $12 million and included inventory and spare engines. These expenditures were partly offset by a Federal government refund recorded in the third quarter of 2004 totaling approximately $12 million relating to costs incurred for upgrading cockpit security. Other expenditures amounted to $20 million and related mainly to system development projects.

LIQUIDITY

As at September 30, 2004, ACE had unrestricted cash and cash equivalents of $1,939 million.

The table below summarizes ACE's major long-term debt and lease obligations as at September 30, 2004, as described in Notes 9 and 13 to the Interim Third Quarter 2004 Consolidated Financial Statements, as well as projections for aircraft expenditures and the related financing.

($ millions) (1)	Remainder of 2004	2005	2006	2007	2008	2009
Long-Term Debt and Capital Lease Obligations						
Long term debt (Note 9)	24	76	33	101	189	168
Capital lease principal obligations (Note 9)	63	149	151	188	188	90
	87	225	184	289	377	258
Lease Payments for Aircraft and Other Property						
Future minimum lease payments under existing operating leases of aircraft (Note 13)	120	496	452	426	319	315
Future minimum lease payments under existing leases for other property (Note 13)	25	84	50	47	46	33
	145	580	502	473	365	348
Projected Aircraft Expenditures, Net of Financing						
Projected committed aircraft expenditures (Note 13)	232	607	599	850	149	0
Projected aircraft financing	(148)	(537)	(475)	(777)	(153)	0
Projected committed aircraft expenditures, net of aircraft financing	84	70	124	73	(4)	0

(1) US dollar amounts are converted using the September 30, 2004 noon day rate of CDN$1.2639. Projected aircraft expenditures are expressed in 2004 dollars.

Other purchase commitments for the remainder of 2004 and 2005 for property, ground equipment and spare parts amount to approximately $66 million.

Long-term debt and capital lease obligations as at September 30, 2004 combined with the estimated present value of committed future aircraft lease payments for the period to the end of the lease term and estimated future purchase options, net of cash balances, amounted to approximately $4 billion compared to approximately $12 billion at December 31, 2002, prior to filing for creditor protection under CCAA.

Air Canada has signed definitive purchase agreements with Empresa Brasileira de Aeronautica S.A. (Embraer) and Bombardier Inc. (Bombardier). The agreement with Embraer covers firm orders for 45 Embraer 190 series aircraft. The purchase agreement also contains rights to exercise options for up to 45 additional Embraer 190 series aircraft as well as providing for conversion rights to other Embraer models. Deliveries are scheduled to commence in November 2005. The agreement with Bombardier covers firm orders for 15 Bombardier CRJ700 Series 705 aircraft and 30 Bombardier CRJ200 aircraft of which 15 may be cancelled without penalty. The purchase agreement also contains options for an additional 45 aircraft. Deliveries of the 50-seat Bombardier CRJ200 commenced in October 2004, with the 75-seat CRJ700 Series 705 deliveries scheduled to begin in May 2005. The estimated aggregate cost of the firm aircraft orders approximates US$2 billion.

The projected aircraft financing amounts are calculated on the basis of debt financing which provides for financing of 85 per cent of the purchase price of committed aircraft expenditures. A number of aircraft can be financed under operating lease arrangements which would provide for a higher net financing of the purchase price. Air Canada has not yet finalized whether these aircraft acquisitions will be financed under debt or operating lease arrangements.

Debt repayment obligations in the future are expected to be met from cash flows from operations. In the months following CCAA emergence, Air Canada plans to normalize its banking and financing relationships to ensure its liquidity requirements will be fully met.

As at November 9, 2004, ACE's consolidated cash balance, measured on the basis of unrestricted cash in its bank accounts, amounted to approximately $1.9 billion.

OFF-BALANCE SHEET ARRANGEMENTS

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement with an entity not reported on a consolidated basis under which a company has (1) any obligation under certain guarantee contracts; (2) a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for the assets; (3) any obligation under certain derivative instruments; or (4) any obligation arising under a material variable interest held in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company.

Guarantees

As described in Note 21 to the Annual Consolidated Financial Statements of Air Canada for the year ended December 31, 2003, ACE may be required to provide residual value support to the lessors covering 43 aircraft under lease agreements. As at September 30, 2004, the maximum potential residual value support ACE may be required to provide under aircraft operating lease agreements is $411 million, a decrease of $445 million from the December 31, 2003 disclosure. The decrease is due to the reclassification of 33 operating leases to capital leases upon lease renegotiation, the purchase of two previously leased aircraft and the impact of foreign exchange. The maximum potential residual value support disclosure is not necessarily indicative of what effect the guarantee will have on the financial condition or capital resources of ACE, based upon current expected aircraft values on lease expiry.

Retained or Contingent Interest in Assets Transferred

ACE has no material arrangements involving the transfer of assets to an unconsolidated entity where those assets serve as credit, liquidity or market risk support to that entity.

Derivative Instruments

ACE's risk management policies and use of derivative financial instruments are described in Note 20 to the Annual Consolidated Financial Statements of Air Canada for the year ended December 31, 2003. There are no derivative financial instruments currently outstanding that are expected to have a material impact on the financial condition, liquidity or results of operations of ACE.

Variable Interests

As disclosed in Note 2cc to the Annual Consolidated Financial Statements of Air Canada for the year ended December 31, 2003, Air Canada has entered into financing transactions with arms length special purpose entities ("SPEs") with respect to a total of 80 aircraft. Lease agreements involving SPEs provide a benefit to Air Canada in the form of reduced aircraft rental payments as the existence of the SPEs optimize the tax and financing structure of the underlying financing arrangement to the lessor.

The existence of the SPE in the lease arrangement does not, in and of itself, increase any financial risk to ACE. ACE views the off balance sheet risk in aircraft lease arrangements as being related to the duration of the lease and the existence of residual value support ACE may be required to provide.

The Accounting Standards Board in Canada has issued Accounting Guideline 15 – Consolidation of Variable Interest Entities (AcG 15) which will be effective for annual and interim periods beginning on or after November 1, 2004. AcG 15 relates to the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. The purpose of AcG 15 is to provide guidance for determining when an enterprise includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its Annual Consolidated Financial Statements. Air Canada continues to evaluate the potential future impact this guideline will have on its financial position and results of operations under Canadian GAAP. Based on the outcome of the evaluation of AcG15, Air Canada may be required to consolidate certain previously non-consolidated entities in existence prior to the effective date of AcG 15.

ADOPTION OF ACCOUNTING POLICIES

In accordance with Section 1625 of the CICA Handbook, Comprehensive Revaluation of Assets and Liabilities, ACE adopted fresh start reporting on September 30, 2004. As a result, all assets and liabilities of the ACE have been reported at fair values, except for future income taxes which are reported in accordance with the requirements of Section 3465 of the CICA Handbook, Income Taxes.

ACE adopted fresh start reporting on September 30, 2004. As a result, the outstanding loyalty program mileage credits ("Miles") were adjusted to reflect the estimated fair market value of Miles to be redeemed in the future. As a consequence of the evolving nature of the Aeroplan loyalty program, ACE will adopt a deferred revenue accounting policy going forward to replace the previous incremental cost policy on Miles earned through air travel. In addition, the estimated percentage of Miles that will never be redeemed, defined as breakage, is deferred and amortized over the average estimated life of a Mile. There is no change to the policy related to the sale of Miles to third parties where revenues were already deferred and recognized as Miles were redeemed. The current portion of Aeroplan deferred revenues of $512 million

($192 million at December 31, 2003 as recorded under the previous accounting policy) is included in advance ticket sales.

As a result of the corporate reorganization as called for under the Plan, ACE is reviewing its operations in accordance with the guidance under CICA 1701 – Segment Disclosures.

Air Canada adopted Accounting Guideline 13 – Hedging Relationships (AcG 13) beginning January 1, 2004. The new guideline concerns the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting; and the discontinuance of hedge accounting. The impact of AcG 13 was not significant during the quarter.

Effective January 1, 2004, Air Canada adopted CICA 1100 – Generally Accepted Accounting Principles and CICA 3063 – Impairment of Long-Lived Assets. CICA 1100 establishes standards for financial reporting in accordance with generally accepted accounting principles. There have been no changes in accounting policies as a result of the adoption of CICA 1100. CICA 3063 establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Air Canada has not recorded any impairment loss as a direct result of the transition to CICA 3063.

MATERIAL CHANGES

There have been no material changes in critical accounting estimates, risk management and risk factors from the disclosures included in the annual 2003 MD&A dated April 2, 2004.

ACE's future operational and financial performance are subject to important risks and uncertainties, including without limitation, war, terrorist attacks, energy prices, general industry, market and economic conditions, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations and disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments and proceedings, pending litigation and actions by third parties. Refer to the "Risk Factors" section of the annual 2003 MD&A dated April 2, 2004 for additional information.

QUARTERLY RESULTS

The table below describes quarterly financial results of Air Canada for the last eight quarters, together with major operating statistics:

Quarterly Financial Data – Condensed Consolidated

$ millions (except per share figures)

	2004			2003				2002
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q4
Passenger revenues	1,661	1,844	2,123	1,745	1,597	1,901	1,615	1,833
Cargo revenues	126	137	142	144	122	122	131	160
Other revenues	334	240	231	322	233	205	231	250
Operating revenues	2,121	2,221	2,496	2,211	1,952	2,228	1,977	2,243
Operating expenses	2,266	2,199	2,253	2,565	2,222	2,211	2,054	2,505
Operating income (loss) before the undernoted items	(145)	22	243	(354)	(270)	17	(77)	(262)
Non-recurring labour expenses	-	-	-	-	-	-	-	(26)
Reorganization and restructuring items	(132)	(426)	(313)	-	(217)	(273)	(560)	-
Non-operating income (expense)	(43)	(72)	(133)	(61)	(69)	(20)	(132)	(71)
Income (loss) before foreign exchange on non-compromised long-term monetary items and income taxes	(320)	(476)	(203)	(415)	(556)	(276)	(769)	(359)
FX gain (loss) on non-compromised long-term monetary Items	17	(34)	123	132	(4)	16	(7)	(14)
Income (loss) before income taxes	(303)	(510)	(80)	(283)	(560)	(260)	(776)	(373)
Recovery of (provision for) income taxes	(1)	-	(1)	13	(6)	(3)	8	(391)
Net income (loss)	(304)	(510)	(81)	(270)	(566)	(263)	(768)	(764)
Earnings (loss) Per Air Canada share – basic	(2.53)	(4.24)	(0.67)	(2.25)	(4.70)	(2.18)	(6.39)	(6.35)
– diluted	(2.53)	(4.24)	(0.67)	(2.25)	(4.70)	(2.18)	(6.39)	(6.35)

	2004			2003				2002
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q4
Quarterly Operating Statistics – Consolidated Operations								
Revenue passenger miles (millions)	10,057	10,836	12,853	9,586	9,073	11,617	9,289	9,701
Available seat miles (millions)	13,797	13,931	15,993	13,310	12,579	15,156	13,115	13,864
Passenger load factor (%)	72.9	77.8	80.4	72.0	72.1	76.6	70.8	70.0
Quarterly Operating Statistics – Mainline-related Operations								
Revenue passenger miles (millions)	9,648	10,382	12,371	9,186	8,653	11,171	8,878	9,319
Domestic	2,743	3,233	3,806	2,599	2,886	3,801	2,847	2,902
International	6,905	7,149	8,565	6,587	5,767	7,370	6,031	6,417
Available seat miles (millions)	13,096	13,215	15,267	12,626	11,889	14,416	12,409	13,181
Domestic	3,772	4,129	4,769	3,648	4,108	5,124	4,066	4,220
International	9,324	9,086	10,498	8,978	7,781	9,292	8,343	8,961
Passenger load factor (%)	73.7	78.6	81.0	72.8	72.8	77.5	71.5	70.7
Domestic	72.7	78.3	79.8	71.2	70.3	74.2	70.0	68.8
International	74.1	78.7	81.6	73.4	74.1	79.3	72.3	71.6

EXPLANATORY NOTES

Mainline or Mainline-related Operations

The charts, discussion and analysis of results contain references to “Mainline” or “Mainline-related” operations. These terms refer to the unconsolidated operations of Air Canada but include, as the context may require, the operations of Aeroplan Limited Partnership (Aeroplan); ZIP Air Inc. (ZIP), a wholly-owned subsidiary airline (which ceased operations in September 2004); Destina.ca Inc. (Destina), a wholly-owned web-based travel company; Air Canada Capital Ltd., a wholly-owned subsidiary whose main business is the leasing of aircraft to Air Canada and ZIP; and other smaller related subsidiaries. Mainline or Mainline-related operations exclude the operations of Jazz Air Inc. (Air Canada Jazz or Jazz), Air Canada’s regional airline; third party airlines operating under capacity purchase agreements; Wingco Leasing Inc. (Wingco), a wholly-owned subsidiary whose main business is the leasing of regional aircraft to Air Canada Jazz and to third party airlines operating under capacity purchase agreements; Touram Inc. (Air Canada Vacations); and other non-airline subsidiaries.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

ACE's communications often contain written or oral forward-looking statements which are included in the MD&A and may be included in filings with securities regulators in Canada and the United States. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. All such statements are made pursuant to the "safe harbour" provisions of the governing US securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, war, terrorist attacks, energy prices, general industry, market and economic conditions, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations and disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending litigation and actions by third parties. The forward-looking statements contained in this discussion represent ACE's expectations as of November 12, 2004, and are subject to change after such date. However, ACE disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

ACE's Third Quarter 2004 Management's Discussion & Analysis and Interim Consolidated Financial Statements & Notes will be available on Air Canada's website **www.aircanada.com** and at SEDAR.com. A copy may also be obtained on request by contacting Shareholder Relations at (514) 422-7578.