ACE AVIATION

ACE Aviation Holdings Inc.

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Glossary

Available Seat Miles or ASMs — A measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown;

Cargo Services — Means the business and operations of the Corporation's air cargo services business carried on by AC Cargo LP and Air Canada including cargo related products, services and ground operations;

Code-share or Code-sharing — Refers to a commercial agreement between airlines where an air carrier sells air transportation under its own designator code and the actual transportation is provided by the other air carrier;

Groundhandling Services — Means the business and operations of the Corporation carried on by ACGHS LP and Air Canada that provide passenger and aircraft related groundhandling services, including, without limitation, check-in, gate management, baggage and cargo handling and ramp services;

Passenger Load Factor — A measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles;

Passenger Revenue per Available Seat Mile or RASM — Means the average passenger revenue per Available Seat Mile;

Revenue Passenger Miles or RPMs — Means total number of revenue passengers carried, including frequent flyer redemptions, multiplied by the miles they are flown;

Technical Services — Means the business and operations of the Corporation's technical service business carried on by ACTS LP, which consists of a heavy maintenance business and operations, repair, overhaul, engineering, training and parts manufacturing;

Yield — Means average revenue per Revenue Passenger Mile.

Explanatory Notes

ACE Aviation Holdings Inc. and the Corporation — References herein to ACE are references to ACE Aviation Holdings Inc. itself and references to the "Corporation" include references, as the context may require, to ACE and its subsidiaries collectively, ACE and one or more of its subsidiaries, one or more of ACE's subsidiaries, or ACE itself.

Currency — All currency amounts used in this document are stated in Canadian dollars, unless otherwise indicated.

Statistical Information — Market data and certain industry forecasts used throughout this Annual Information Form were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained herein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys industry forecasts and market research, while believed to be reliable, have not been independently verified, and the Corporation does not make any representation as to the accuracy of such information.

Trademarks — The following trademarks are owned by the Corporation and, as the context requires, are used in this document to identify products or services offered by the Corporation: Aeroplan, Air Canada Jetz, Jazz, Destina.ca, Acetek, Air Canada Vacations, Executive First, Executive Class, AC Expedair, AC Priority, AC Air Freight, AC Lynx, Hospitality Service, Rapidair, Maple Leaf Lounge, AC WEBSAVER and Aeroplan Super Elite. The enRoute trademark is also owned by the Corporation. Star Alliance is a trademark of the Corporation and of other members of the Star Alliance group.

THE CORPORATION

Incorporation

ACE Aviation Holdings Inc. was incorporated on June 29, 2004 under the *Canada Business Corporations Act* ("CBCA") and became the parent holding company of the reorganized Air Canada and its subsidiaries upon the implementation of the consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries under the CBCA, the *Companies' Creditors Arrangement Act* ("CCAA") and the *Business Corporations Act* (Alberta) which was implemented on September 30, 2004 (referred to herein as the "Plan").

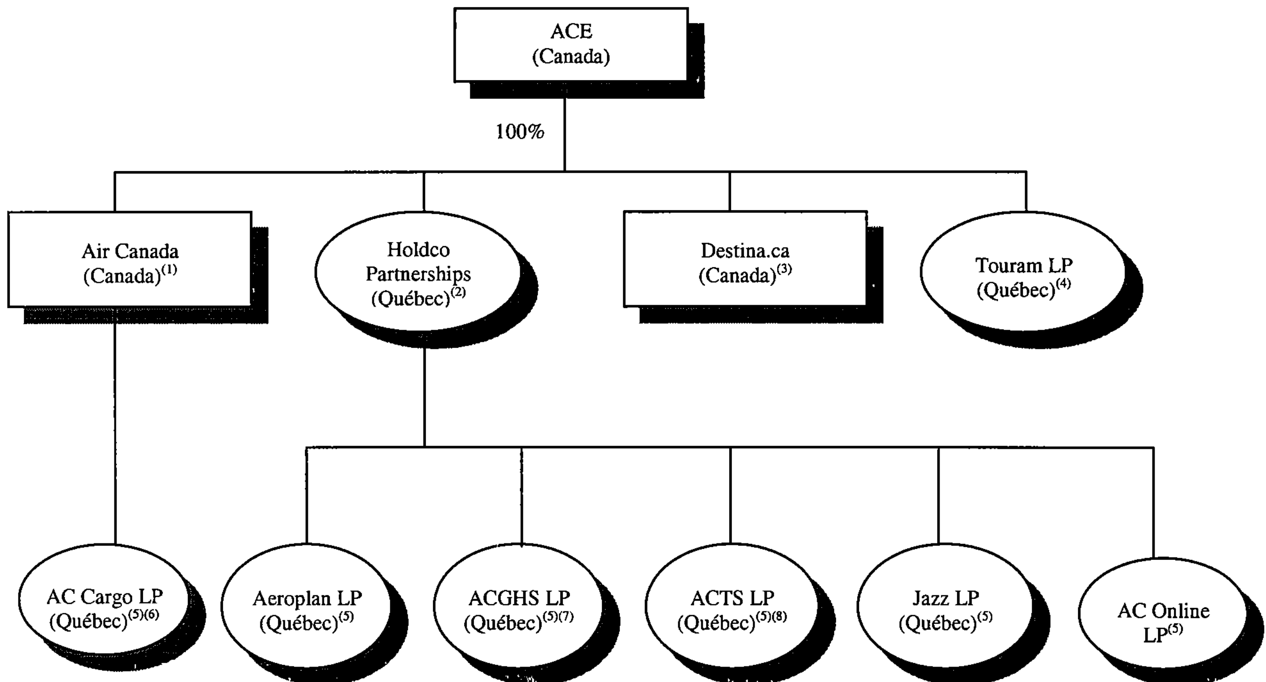
On September 30, 2004, as part of the implementation of the Plan, Air Canada reorganized its corporate structure. Pursuant to such corporate reorganization, Aeroplan Limited Partnership ("Aeroplan"), Jazz, Touram and Destina.ca, which were already established as stand-alone entities under Air Canada, became stand-alone entities under ACE, while ACTS Limited Partnership ("ACTS LP"), AC Cargo Limited Partnership ("AC Cargo LP"), AC Online Limited Partnership ("AC Online LP") and ACGHS Limited Partnership ("ACGHS LP") were established as stand-alone limited partnerships under ACE. As a result, ACE operates as a holding company for Air Canada and ACE's other subsidiaries. ACE's new corporate structure is designed to facilitate the development of each business unit to its fullest individual potential including, where appropriate, through the pursuit of third party sources of business, and to maximize the value of the subsidiaries.

The Variable Voting Shares and the Voting Shares of ACE are listed on the Toronto Stock Exchange ("TSX"), under the symbols "ACE.RV" and "ACE.B", respectively.

The head office of ACE is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2.

Corporate Structure

The following table lists ACE's major subsidiaries, including their jurisdictions of constitution and the percentage of equity held or controlled directly or indirectly by ACE:



(1) Air Canada holds all of the issued and outstanding shares of certain subsidiaries, including AC Capital, which is incorporated under the laws of the Province of Alberta.

(2) The Holdco Partnerships, which are limited partnerships governed by the laws of the Province of Québec, are the limited partners of, and hold 99.99999% of the units in, Aeroplan LP, ACGHS LP, ACTS LP, Jazz LP and AC Online LP. ACE is the limited partner of each Holdco Partnership and holds 99.9% of the units of each Holdco Partnership. 4218850 Canada Inc., a wholly-owned subsidiary of ACE incorporated under the laws of Canada, is the general partner of, and holds 0.01% of the units in, each Holdco Partnership. Air Canada holds all of the limited partner preferred units in each Holdco Partnership.

(3) ACE holds all of the issued and outstanding common shares in Destina.ca. Air Canada also holds preferred shares in Destina.ca.

(4) Touram LP provides tour operator services and leisure vacation packages under the trade name Air Canada Vacations and sells surplus seat inventory to travel agents under the trade name Netair. On January 31, 2005, Touram transferred all of its assets and certain of its liabilities to Touram LP, a limited partnership governed by the laws of the Province of Québec. Touram, a corporation incorporated under the laws of Canada, is the limited partner of, and holds 99.99999% of the units in, Touram LP. ACE holds all of the issued and outstanding common shares of Touram and Air Canada holds preferred shares in Touram. Touram General Partner Inc., a wholly-owned subsidiary of Touram incorporated under the laws of Canada, is the general partner of, and holds 0.00001% of the units in, Touram LP.

(5) The general partners of AC Cargo LP, Aeroplan LP, ACGHS LP, ACTS LP, Jazz LP and AC Online LP are wholly-owned subsidiaries of ACE incorporated under the laws of Canada. Such general partners hold 0.00001% of the units in AC Cargo LP, Aeroplan LP, ACGHS LP, ACTS LP, Jazz LP and AC Online LP.

(6) AC Cargo LP, together with Air Canada, provides Cargo Services. Air Canada is the limited partner of, and holds 99.99999% of the units in, AC Cargo LP.

(7) ACGHS LP, together with Air Canada, provides Groundhandling Services.

(8) ACTS LP provides Technical Services.

Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of the Corporation, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of the Corporation at December 31, 2004, have been omitted.

REGULATORY ENVIRONMENT

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, safety and ground and navigation facilities, falls wholly within the jurisdiction of the federal government and is the responsibility of the Minister of Transport. The Canadian Transportation Agency is responsible for issuing air carrier licenses for both domestic and international services and regulates international air fares and conditions of carriage. Since 1996, air navigation services in Canada have been provided by NAV Canada, a privatized company. In addition, all major Canadian airports are operated by local airport authorities that are also privatized companies.

Domestic Services

The 1987 deregulation of the domestic airline industry allowed carriers to establish fares and conditions of carriage without government regulation. The *Canada Transportation Act* ("CTA") provides for free market entry to the extent that a carrier can demonstrate that (i) it is "Canadian", defined in the CTA as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the *Air Transportation Regulations* (Canada) adopted pursuant to the CTA.

In July 2000, the Government of Canada amended the CTA, the *Competition Act* (Canada) and the *Air Canada Public Participation Act* (Canada) to address the competitive airline environment in Canada and ensure protection for consumers. This legislation increased the powers of the Canadian Transportation Agency with respect to pricing on non competitive domestic routes, and domestic terms and conditions of carriage. In addition, this legislation included airline-specific provisions concerning "abuse of dominance" under the *Competition Act* (Canada).

In February 2001, the Competition Bureau released, for consultation, draft guidelines outlining the approach it proposes to take in enforcing the airline-specific "abuse of dominance" provisions of the *Competition Act* (Canada) including the establishment of administrative monetary penalties for a breach of the abuse of dominance provisions by a dominant domestic air carrier The guidelines describe, among other things, how the Competition Bureau would calculate whether a carrier is operating or increasing capacity at fares that do not cover the avoidable costs of providing the services and uses of commissions, incentives, loyalty programs or corporate discounts that would be regarded as anti-competitive. The guidelines were never finalized in light of the letter issued in 2004 by the Commissioner of Competition described below outlining her approach to enforcement of the airline abuse of dominance provision on a going forward basis.

In March 2001, the Commissioner of Competition brought an application under the "abuse of dominance" provisions of the *Competition Act* (Canada), seeking an order prohibiting Air Canada from charging fares on flights on certain routes in eastern Canada if such fares would not cover the avoidable costs of such flights. By agreement of Air Canada and the Commissioner of Competition, the application was divided into two phases. Phase I involved a review of all of Air Canada's costs from April 2000 to March 2001 and a determination of which of those cost items would be considered avoidable costs. The Competition Tribunal released its reasons and findings regarding Phase I on July 22, 2003, and adopted a broadly crafted avoidable cost test. The decision of the Competition Tribunal does not constitute a determination that Air Canada breached the *Competition Act* (Canada) by abusing its dominant position, which is an issue that would have been determined in Phase II of the application. As described below, Phase II of the application will not proceed as the proceeding was terminated by the Commissioner of Competition with the agreement of Air Canada, for the reasons described below.

In September 2004, following extensive discussion with Air Canada, the Competition Bureau published a letter describing the enforcement approach to be taken by the Competition Bureau to any new complaint made against a dominant domestic carrier in light of the changes in the airline industry that have occurred since 2000. Furthermore, certain undertakings given by Air Canada to the Commissioner of Competition in 1999 as a condition of its acquisition of Canadian Airlines International Ltd. and which inhibited in some respects Air Canada's ability to compete have now been rescinded. In addition, on November 2, 2004, the Minister of Industry tabled amendments to the *Competition Act* (Canada) in Bill C-19 which, if enacted, will remove the airline-specific "abuse of dominance" provisions from the *Competition Act* (Canada). The legislative process for Bill C-19 is ongoing.

In light of these developments, and as part of the agreement to terminate the March 2001 application to the Competition Tribunal, Air Canada determined that it would not appeal the Competition Tribunal's decision in Phase I of the application. The Competition Bureau has expressed its view that the principles established by the Competition Tribunal in Phase I of the application regarding the application of the avoidable cost test would be relevant for any future cases which may arise in similar circumstances.

On April 27, 2004, the Government of Canada amended the *Canadian Computer Reservation Systems (CRS) Regulations* adopted under the *Aeronautics Act* (Canada) to lessen the regulatory requirements and place greater reliance on market forces in the distribution system that will result in market efficiencies and reduced costs for airlines. With the amendments, airlines with at least 10% market share are no longer required to participate in all CRSs operating in Canada and have the freedom to select the levels of participation that best serve their operations. Also, all airlines and CRS vendors are now permitted to freely negotiate fees on strictly commercial terms.

Transborder Services

In February 1995, a new air services agreement, the Open Skies Agreement, was implemented between Canada and the United States, replacing the previous bilateral agreement, which restricted market access and fares. This agreement gave Canadian air carriers unlimited route rights to provide "own aircraft" services between Canada and the United States. The carriage of local traffic between points within one country by carriers of the other country, commonly known as *cabotage*, continues to be prohibited. On February 24, 2005, Canada's Minister of Transport met with the U.S. Transportation Secretary while attending the Canadian Airports Council Open Skies Forum. One key area of discussion focused on commercial air liberalization. Following their meeting, Canada's Minister of Transport and the U.S. Transportation Secretary announced that they will begin exploratory discussions in the near future to consider a framework to further the air liberalization process. ACE is supportive of further commercial air liberalization between Canada and the United States.

Under the Open Skies Agreement, rules governing fare levels and the requirement to file tariffs (excluding rules tariffs) with government authorities were eliminated. Carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In September 1997, the U.S. Department of Transportation granted Air Canada and United Airlines anti trust immunity for their marketing alliance. This authority has allowed the two carriers to more closely coordinate strategic, commercial and network planning between Canada and the United States with some restrictions on the San Francisco to Toronto and Chicago to Toronto routes. The carriers resubmitted their alliance agreement for review in September 2002 and the U.S. Department of Transportation did not provide any comment or raise any issue. In November 1997, Canada and the United States concluded an agreement that allows Canadian and U.S. carriers to Code-share to, from and via each other's territory, with carriers from other countries provided the other country allows Code-sharing and the carriers hold the underlying rights to serve that country. As a result, Air Canada increased its Code-sharing with certain Star Alliance partners via Canada and the United States.

International Services

Scheduled international air services are regulated by the Canadian and foreign governments involved. The Minister of Transport has the authority to designate which Canadian air carriers may serve scheduled international routes. International route rights are obtained through bilateral negotiations between Canada and foreign countries. Bilateral agreements provide for the rights which may be exercised over agreed routings and the conditions under which the carriers may operate, including, among others, the number of carriers which may operate, the capacity and/or flight frequencies that may be provided and the controls over tariffs to be charged. Most bilateral agreements to which Canada is a party provide for the designation of more than one Canadian carrier, while some provide for the designation of only one Canadian carrier. In general, bilateral agreements between Canada and European countries are more liberal in terms of controls on capacity and flight frequencies than those between Canada and Asian countries.

In February 2001, the Minister of Transport launched an international air services policy review to address competition in the international market with the objective of liberalizing Canada's policy for scheduled international

air services, including how Canada approaches the negotiation and management of air traffic rights with other countries.

In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Any Canadian carrier may apply to be designated to serve any foreign country, regardless of the size of the air travel market. If the number of Canadian carriers permitted is restricted under existing bilateral agreements, the Canadian government has indicated that it will pursue negotiations with the appropriate countries to seek the necessary rights for Canadian carriers. In addition, an incumbent carrier's designation in a particular market will be subject to reallocation only in circumstances where the bilateral agreement limits designation and the carrier is not operating its own aircraft or Code-share services.

In 2003, the European Union and the United States commenced air transport negotiations aimed at further liberalizing Europe-U.S. air services. While several European Union members already have open skies agreements in force with the United States, four members maintain more restrictive bilateral agreements in terms of market access and pricing. Several rounds of negotiations have been held but it is uncertain whether the talks will result in a new multilateral agreement and when such agreement might be reached. Although there was some discussion about having Canada observe these negotiations, Canada is not attending the negotiations.

Charter Services

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the Canada U.S. Open Skies Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities. Charter services are operated by Air Canada to provide service to foreign points where it is not the designated airline or to generate additional revenues from aircraft that would otherwise be idle.

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one way travel. To preserve a distinction between charter and scheduled international services, this policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter carriers be prohibited from selling seats directly to the public.

Security Initiatives

Following the September 11, 2001 terrorist attacks, the Minister of Transport issued new air security measures, including increased passenger and baggage screening and enhanced security procedures at check-in gates and on-board the aircraft. Other countries such as the United States and the United Kingdom have imposed similar security requirements. Air Canada's priority has been to ensure the safety and security of all passengers and crew members on all flights. In advance of these new measures, Air Canada has reinforced the cockpit doors on all of its mainline operating aircraft and has required its passengers to produce valid identification prior to boarding all flights. In December 2001, the Minister of Transport announced several security initiatives including a new Canadian Air Transport Security Authority responsible for the provision of key air security services, an expanded program of armed police on aircraft to cover selected domestic and international flights, and an air traveler's security charge. The air traveler's security charge was introduced on April 1, 2002. Since April 1, 2004, the charge is $12 for domestic travel and $20 for transborder and international travel.

In October 2002, the Canada Revenue Agency implemented its Advance Passenger Information initiative to identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by regulation to provide the Minister of National Revenue with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide, upon request, access to passenger name records in the carriers' internal reservation systems. The United States, the United Kingdom, Australia, New Zealand, Mexico and South Korea have proposed similar information requirements with respect to flights operating into and/or from their territory.

On May 6, 2004, Bill C 7, an *Act to amend certain Acts of Canada in order to enhance public safety* (known as the *Public Safety Act*, 2002) received royal assent. The legislation amends certain provisions of the *Aeronautics Act* (Canada) so as to further develop the scope and objectives of the existing national aviation security regime. The amendments include requirements for Canadian carriers and foreign carriers operating into Canada to provide, upon request, information concerning specified flights or persons to the Minister of Transport, Royal Canadian Mounted Police and Canadian Security Intelligence Service for transportation security or national security purposes. These amendments came into force on May 11, 2004.

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

Airline Industry

The airline industry is highly competitive. Over the past two decades, governments have gradually removed economic regulation of commercial aviation, resulting in a more open and competitive environment for domestic, transborder and international airline services, for both scheduled and leisure charter operations.

Deregulation has transformed the global airline industry and allowed the emergence of low-cost carriers. Following in the footsteps of Southwest Airlines in the United States and easyJet and Ryanair in Europe, the entry in the Canadian market of low-cost carriers marked the beginning of a rapid shift in the domestic competitive environment. With their relatively low unit costs, which result largely from lower labour costs and a simpler product, low-cost carriers are able to operate profitably while offering substantially lower fares. By offering such fares to business passengers in particular, these carriers have succeeded in expanding and taking demand away from the larger, more established carriers, commonly referred to as "legacy carriers".

In response to these changes, many legacy carriers have adopted similar strategies for dealing with competition from low-cost carriers in their respective domestic markets. A common strategy has been to reduce costs and capacity by negotiating substantial labour concessions, rationalizing domestic capacity, and focusing on long-haul premium business routes. These measures enable the legacy carriers to exploit their competitive advantages in the global marketplace while also drawing on a much larger customer base.

The terrorist attacks of September 11, 2001 materially affected the airline industry. Additionally, heightened airport security procedures that were introduced following the September 2001 attacks have caused air travel to become comparatively more time consuming and less convenient for passengers, which has further reduced consumer demand. The war in Iraq and its aftermath, and the outbreak of SARS (which most dramatically affected Asia and Canada), both adversely impacted airline bookings in 2003.

In order to realign their business models, many legacy carriers have restructured or are currently restructuring either through court-supervised or consensual processes. The degree of restructuring and the changes being implemented vary from carrier to carrier. The U.S. industry comprises several legacy carriers in a highly fragmented market, characterized by significant overcapacity, deep price discounting and increasing competition from low-cost carriers (such as Southwest Airlines and JetBlue Airways). The Canadian airline industry is less fragmented than the U.S. airline industry.

Domestic Market

Air Canada is Canada's largest domestic full service airline. The Canadian airline industry is characterized by a limited number of high density markets, which account for the majority of passenger traffic and revenue. Domestic low-cost carriers have achieved a material presence in all major domestic markets and they continue to expand. The Corporation has redefined its business strategy in order to compete effectively.

Based on Official Airline Guide ("OAG") data, the Corporation estimates that in March 2005, it will provide approximately 55% of the Canadian airline industry's overall domestic scheduled capacity, as measured by ASMs, while WestJet will provide approximately 27%. The Corporation had estimated that Jetsgo would provide approximately 7% of such capacity. However, on March 11, 2005, Jetsgo ceased its operations and announced its

intention to seek protection under the CCAA. The percentage of capacity that each airline offers on the various domestic routes will vary substantially.

Based on data provided by Transport Canada, domestic revenue passengers grew at a compound annual rate of 2.2% from 1993 through 2003. Transport Canada is forecasting that domestic revenue passengers will grow at a compound annual rate of 3.6% from 2004 through 2007.

Transborder Market

With the most non-stop destinations and flights to the United States, Air Canada carries more passengers between Canada and the United States than any other airline. Competition in the transborder market is primarily from the U.S. legacy carriers, which tend to operate flights between the United States and Canada via their hubs for connecting flights. U.S. legacy carriers with transborder operations include, without limitation, American Airlines, Delta Airlines, Continental Airlines, United Airlines and Northwest Airlines.

Canadian low-cost carriers operate transborder services and are expanding their operations in the transborder market. WestJet currently provides transborder services to Florida, California, New York and Arizona, and CanJet currently provides transborder services to New York and to Florida during the winter.

Based on OAG data, the Corporation estimates that in March 2005, it will provide approximately 40% of the overall transborder scheduled capacity, as measured by ASMs, before taking into account Jetsgo ceasing its operations. The Corporation's management believes that over 50% of its transborder passengers originate from Canada, which helps support the Corporation's market position, based on the assumption that Canadians generally prefer to travel outside the country with their national carrier.

According to The Conference Board of Canada ("TCBC"), a strong Canadian dollar, solid economic growth, growth in air capacity, and a more stable geopolitical environment are contributing to a more positive outlook for air travel from Canada to the United States. TCBC expects the number of visitors by air from Canada to the United States to grow at a compound annual rate of 5.6% from 2004 through 2007 compared to a compound annual rate of 0.3% from 1993 through 2003.

International Market

Air Canada has a broad portfolio of international route rights and is Canada's largest scheduled international carrier. In the trans-Atlantic and trans-Pacific markets, Air Canada primarily competes with foreign legacy carriers and, to a lesser extent, with charter carriers on higher density routes, with operations primarily during peak travel seasons. U.S. legacy carriers also provide indirect competition by flying Canadian passengers through their hubs to international markets. However, management believes that the U.S. government policy requiring a visa from residents of certain countries for transit through the United States has provided an advantage to Air Canada since there is currently no equivalent requirement that applies to transit through Canada.

The expansion of major airline alliances, such as Star Alliance, oneworld and SkyTeam has consolidated operations in the trans-Atlantic and trans-Pacific markets. In the trans-Pacific market, the emergence of polar routes has provided opportunities for new non-stop services from eastern North American cities to Asia. Air Canada is pursuing these opportunities and has introduced non-stop services from Toronto to Tokyo, Hong Kong, Delhi and, in the summer of 2005, plans to add non-stop services from Toronto to Beijing and Seoul. The South American market also represents an area of growth for Air Canada, since no South American carrier currently flies to Canada.

Based on OAG data, the Corporation estimates that in March 2005, it will provide approximately 45% of the overall international scheduled capacity between Canada and Europe and Canada and Asia, as measured by ASMs.

While visits by air from Canada to Europe have grown modestly over the past few years, TCBC expects the number of such visits to grow at a compound annual rate of 2.9% from 2004 through 2007, compared to a compound annual rate of 1.8% from 1993 through 2003.

Air Canada is currently the only Canadian scheduled carrier on Asian routes from Canada, although many Asian countries have their own carriers serving Canada. According to TCBC, visitors by air to Asia have grown at a compound annual rate of 2.6% from 1993 through 2003, and are expected to grow at a compound annual rate of 6.8% from 2004 through 2007, outpacing the rate of growth in travel to most other destinations.

Loyalty Program Industry

Several major retailers have loyalty programs that allow enrolled members to earn miles or points that can be redeemed for a broad range of products and services. These programs exist across various industries and retail segments, including airlines, restaurants, supermarkets, bookstores, department and specialty stores. Aeroplan, Canada's premier loyalty program, generally competes with other companies offering loyalty programs and promotional items. Its largest competitor is the Air Miles program.

Maintenance, Repair and Overhaul Industry

Maintenance, repair and overhaul ("MRO") services, come from three primary sources: original equipment manufacturers ("OEMs"), MRO businesses owned by other major commercial airlines and other independent repair and overhaul companies.

Increasingly, many airlines and leasing companies prefer dealing with a single MRO provider that has the expertise necessary to take charge of all of their MRO work, including major overhauls, component and engine repairs and regulatory compliance. ACTS LP is positioning itself to pursue a greater market share by providing such value-added, full service, integrated solutions that offer continuous cost improvement to its airline customers.

The MRO industry's performance is highly dependent on the airline industry's economic performance. Although profit margins have suffered in recent years as a result of a very competitive market and airlines reducing their capacity in order to reduce costs, the sector is showing signs of recovery. As airlines add capacity and increase traffic, the MRO market is expected to grow.

RECENT DEVELOPMENTS

Jetsgo Ceases Operations

On March 11, 2005, Jetsgo Corporation ceased operations and announced its intention to seek protection under the CCAA. Jetsgo cited difficult market conditions resulting from competitive pressures in the Canadian airline industry as the primary reason for its decision to discontinue its operations and ground all of its aircraft.

THREE-YEAR SUMMARY: EVOLUTION OF BUSINESS

Economic Environment

Commencing in the summer of 2000, Air Canada faced increasing competition from domestic low-cost airlines which, together with growing consumer demand for lower fares, reduced Yields. In addition, the general recessionary economic environment in 2000 caused a substantial decline in the demand for premium business travel. Air Canada could not fully respond to this new competition due to the undertakings imposed in connection with the acquisition of Canadian Airlines International Limited ("CAIL") which notably prevented Air Canada from starting up a planned low-cost air carrier in Eastern Canada before September 2001 and also prevented Air Canada from significantly reducing labour costs.

Over the past few years, the worldwide airline industry also experienced a succession of negative events, each of which had a greater impact on Air Canada than upon its domestic competitors given Air Canada's large transborder and international travel components. Recent years have been characterized by an overall recessionary economic environment which led to reduced demand for Air Canada's services and a substantial drop in demand in the premium corporate and business travel markets. The adverse consequences of a declining economy were

compounded by the September 11, 2001 terrorist attacks and the 2003 SARS outbreak which led to further reductions in consumer demand.

Air Canada was unable to reduce its costs to the level required by the new airline industry environment.

The September 11, 2001 terrorist attacks also triggered substantial increases in insurance and airport security costs. For 2002, Air Canada annual aviation insurance costs increased significantly compared to insurance costs in effect prior to September 11, 2001. Following September 11, 2001, Air Canada grounded many of its aircraft that were deemed to be in excess of its requirements. As most airlines were generally experiencing similar overcapacity problems, Air Canada's ability to dispose of such aircraft was severely restricted.

The geo-political instability that has characterized recent years, including the Iraq war, brought uncertainty to the global economy and contributed to increased volatility in fuel prices. Fuel prices, an important factor for Air Canada, were at a near record level in the first quarter of 2003.

In this context, Air Canada experienced a worsening financial position exemplified by its senior debt rating being downgraded by Moody's (from Ba3 to B1) in January 2001 and by DBRS (from BB with a stable trend to BB (low)) in February 2001. The events of September 11, 2001, triggered another downgrade of Air Canada's debt rating by DBRS (from BB (low) to B (high)) and S&P (from BB- to B+) in September 2001 and by Moody's (from B1 to B3) in October 2001.

In early 2003, Air Canada's revenues began to be severely impacted by: (i) the advent of the Iraq war; (ii) the SARS outbreak; and (iii) the rapid expansion of WestJet and other low-cost carriers. In combination, these factors caused Air Canada's passenger revenues to decline significantly in 2003 versus 2002. The operating losses of 2001 and 2002 had already significantly diminished the liquidity of Air Canada and alternative sources of funding were not available.

On March 21, 2003, the Office of the Superintendent of Financial Institutions ("OSFI") issued directions requiring Air Canada to file new actuarial valuations of its ten registered pension plans and to make retroactive current service contributions to eight of those plans in respect of 2002. The impact of these directions would have been to place a great burden on Air Canada's liquidity over the ensuing five years in order to fund the pension plans' solvency deficit in the time required by existing regulations.

Consequently, with the advice of their financial and legal advisors, the Applicants (as defined below) elected to restructure their operations, debt and capitalization under the protection of the CCAA.

Air Canada's Consolidated Plan of Reorganization, Compromise and Arrangement

On April 1, 2003 Air Canada obtained an initial order from the Ontario Superior Court of Justice (the "Court") providing creditor protection under the CCAA. The initial order was further amended by the Court throughout the CCAA proceedings based on motions from Air Canada, its creditors and other interested parties. On April 1, 2003, Air Canada, through Ernst &Young Inc., its Court-appointed monitor ("Monitor"), also made a concurrent petition for recognition and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The CCAA and U.S. proceedings covered Air Canada and the following of its wholly-owned subsidiaries: Jazz Air Inc., ZIP Air Inc., 3838722 Canada Inc., Air Canada Capital Ltd., Manoir International Finance Inc., Simco Leasing Ltd., and Wingco Leasing Inc. (collectively, the "Applicants"). Aeroplan, Touram Inc. and Destina.ca were not included in the CCAA filing. These three subsidiaries continued to deal with their creditors on a normal basis, unaffected by the CCAA and U.S. proceedings.

The initial order and U.S. proceedings contained a general stay of proceedings against the Applicants. This stay generally precluded parties from taking any action against the Applicants for breach of contractual or other obligations. The purpose of the stay period order was to provide the Applicants with relief designed to stabilize their operations and business relationships with customers, vendors, employees and creditors and to allow Air Canada to develop a process for soliciting new equity or other post emergence financing. During the stay period, Air Canada

developed its revised business plan and conclude new arrangements with creditors (including aircraft lessors) and labour unions.

On September 30, 2004, ACE's predecessor corporation and now its wholly-owned subsidiary, Air Canada, and certain of its subsidiaries, emerged from creditor protection under the CCAA and implemented the Plan. The purpose of the Plan, together with Air Canada's new business strategy, was to restructure the capitalization, operations and cost structure of Air Canada. The Plan and the new business strategy were designed to:

(i) reduce Air Canada's operating costs to a competitive level through the renegotiation of collective bargaining agreements, aircraft leases, real property leases and various other commercial agreements;

(ii) implement a fleet renewal program to achieve the appropriate number, size and mix of aircraft for Air Canada's route network;

(iii) complete a restructuring of Air Canada's debt and lease obligations;

(iv) redefine Air Canada's core product offerings to enable it to compete effectively in the current and future airline industry environment; and

(v) reorganize Air Canada's corporate structure to enable certain key businesses to better compete for third party business and generate value for their stakeholders.

The implementation of the Plan reduced Air Canada's debt (net of cash and cash equivalents) and lease obligations (on a present value basis) to approximately $4 billion as at December 31, 2004 compared to $12 billion as at December 31, 2002, prior to Air Canada's filing for protection under the CCAA. Also, as part of the implementation of the Plan, all the preferred shares of Air Canada were cancelled and all of the holders of common shares and Class A non-voting shares of Air Canada exchanged their shares for Voting Shares and Variable Voting Shares. Pursuant to such exchange, the former holders of common shares and Class A non-voting shares of Air Canada received 0.01% of the fully diluted equity of ACE upon emergence from the CCAA proceedings.

On September 30, 2004, as part of the implementation of the Plan, Air Canada reorganized its corporate structure. Pursuant to such corporate reorganization, Aeroplan, Jazz, Touram and Destina.ca, which were already established as stand-alone entities under Air Canada, became stand-alone entities under ACE, while ACTS LP, AC Cargo LP, AC Online LP and ACGHS LP were established as stand-alone limited partnerships under ACE. As a result, ACE operates as a holding company for Air Canada and ACE's other subsidiaries. ACE's new corporate structure is designed to facilitate the development of each business unit to its fullest individual potential including, where appropriate, through the pursuit of third party sources of business.

Rights Offering

As part of the Plan, ACE offered rights to Air Canada's creditors with proven claims to subscribe for up to $850 million of Voting Shares and/or Variable Voting Shares ("Shares"). Pursuant to its standby purchase agreement with Air Canada, Deutsche Bank agreed to act as the exclusive standby purchaser in respect of the rights offering. As standby purchaser, Deutsche Bank had the right to syndicate out its rights to purchase Shares. Deutsche Bank and the participants in its syndicate subscribed for all the Shares not otherwise subscribed for by the creditors at a subscription price per Share of $21.50, which represented the subscription price of $20.00 paid by creditors, plus a premium of $1.50. On September 30, 2004, ACE completed the issuance of Shares under such rights offering for total gross proceeds of $865 million, including the amount of the premium paid by Deutsche Bank and the participants of its syndicate pursuant to the standby purchase agreement.

In accordance with the terms of the standby purchase agreement, ACE entered into a registration rights agreement with Deutsche Bank Securities Inc. ("Deutsche Bank"), dated as of September 30, 2004 (the "Registration Rights Agreement"). Under the Registration Rights Agreement, ACE agreed to use its reasonable best efforts to prepare and file with the United States Securities and Exchange Commission ("SEC") a registration statement covering the resale, from time to time, of Registrable Securities (as defined below) by the Selling Shareholders (as defined below), and to use its reasonable best efforts to maintain the effectiveness of the registration statement for a

period of two years from the date of effectiveness. "Registrable Securities" means any Shares purchased by Deutsche Bank or the participants in its syndicate pursuant to the Plan, including Shares purchased pursuant to the standby purchase agreement, as well as any securities issued upon conversion of, in exchange for, or in substitution for such securities. Such Shares will cease to be Registrable Securities if: (i) they are sold pursuant to the Resale Prospectus (as defined below); (ii) they are sold pursuant to an exemption from registration under the 1933 Act and, following such sale, are freely tradeable in the United States and Canada; or (iii) such Shares cease to be outstanding. "Selling Shareholders" means Deutsche Bank and each participant of its syndicate for so long as such person is the registered owner of any Registrable Securities, and such person's heirs, successors and permitted assigns so long as such heir, successor or permitted assign is the registered owner of Registrable Securities with a fair market value of at least $100,000 as of the date of the Resale Prospectus.

On November 30, 2004, a resale registration statement containing a resale prospectus (the "Resale Prospectus") was filed with the SEC in accordance with the terms of the Registration Rights Agreement in order to cover resales of Registrable Securities by the Selling Shareholders. Based upon information provided to ACE by the Selling Shareholders, the Selling Shareholders held, as of November 12, 2004, a total of 26,774,011 Variable Voting Shares and 58,805 Voting Shares. ACE cannot estimate the amount of Shares that will be held by the Selling Shareholders upon the termination of the two-year period during which the Resale Prospectus remains valid.

Investment Agreement

On September 30, 2004, Promontoria Holding III B.V. ("Cerberus Affiliate") invested $250 million in ACE in consideration for the issuance to it of 12,500,000 Preferred Shares initially convertible into 9.16% of the fully diluted equity of ACE upon emergence from the CCAA proceedings. The Cerberus Affiliate holds all of the issued and outstanding Preferred Shares. For a summary of the terms of the Preferred Shares, see "*Description of Share Capital — Preferred Shares*".

Pursuant to the investment agreement with the Cerberus Affiliate dated June 23, 2004 ("Investment Agreement"), three of the 11 members of the board of directors of ACE appointed pursuant to the Plan were designated by the Cerberus Affiliate. The Cerberus Affiliate has the right to designate three of the 11 members of the board of directors of ACE for a minimum of two years after September 30, 2004. After September 30, 2006, for as long as the Cerberus Affiliate and its affiliates hold at least 75% of the Preferred Shares (or Shares into which they are converted or convertible) originally purchased under the Investment Agreement, the Cerberus Affiliate will continue to have the right to designate three individuals to the board of directors of ACE. After September 30, 2006, for as long as the Cerberus Affiliate and its affiliates hold at least 50% but less than 75% of the Preferred Shares (or Shares into which they are converted or convertible) originally purchased under the Investment Agreement, the Cerberus Affiliate will have the right to designate two individuals to the board of directors of ACE. For as long as the Cerberus Affiliate and its affiliates hold at least 25% but less than 50% of the Preferred Shares (or Shares into which they are converted or convertible) originally purchased under the Investment Agreement, the Cerberus Affiliate will have the right to designate one member of the board of directors of ACE. For as long as the Cerberus Affiliate and its affiliates hold at least 2.5% of the economic equity interests of ACE, the Cerberus Affiliate will have the right, at reasonable times and upon reasonable notice, to have access to the management of ACE and to all reasonable financial and operating information of ACE, including business plans, budgets and quarterly results, in order to consult with management and express its views on the business and affairs of ACE and its subsidiaries.

The Preferred Shares (including the Shares into which they are converted or convertible) may not be sold, assigned or in any way transferred by the Cerberus Affiliate (other than to its affiliates) including pursuant to hedging transactions, swaps or other arrangements transferring any of the economic consequences of the ownership of the Preferred Shares acquired by the Cerberus Affiliate for a period of 24 months after September 30, 2004; provided that, if at any time during such 24-month period the Cerberus Affiliate is required to convert the Preferred Shares, then the restrictions on transfer with respect to 50% of the Preferred Shares (and any Shares into which they are converted or convertible) will be of no force and effect and the restrictions on transfer with respect to the remaining 50% of the Preferred Shares (and any Shares into which they are converted or convertible) will be limited only to sales of beneficial ownership of the Preferred Shares (and any Shares into which they are converted or convertible) to third parties. Notwithstanding the foregoing, the transfer restrictions will cease to be in effect as to all Preferred Shares (and any Shares into which they are converted or convertible) in the event of a tender offer or take-

over bid for any of the Shares, any change in control transaction, any liquidation, dissolution, bankruptcy or other similar proceedings of ACE.

The terms attached to the Preferred Shares provide the Cerberus Affiliate with preemptive rights on any issuance or sale by ACE of Variable Voting Shares or Voting Shares or other equity securities, rights, options, warrants or other convertible securities which represent rights to purchase Variable Voting Shares or Voting Shares. For further details, see "*Description of Share Capital — Preferred Shares — Preemptive Rights*".

GECC Lease Restructuring and Financing

The four agreements, each dated as of July 1, 2003, between General Electric Capital Corporation ("GECC") and Air Canada ("GECC Agreements") provided for: (i) the restructuring of existing arrangements for 106 GECC-owned and GECC-managed aircraft; (ii) exit financing for use upon emergence from the proceedings under the CCAA; and (iii) financing to be used for future acquisitions of new regional jet aircraft. All terms of the GECC Agreements (to the extent not effective upon Court approval in January 2004) became effective on September 30, 2004.

Amending or termination agreements for the restructuring of the obligations of Air Canada and its subsidiaries with respect to operating, parked and undelivered aircraft were executed concurrently or subsequent to the GECC Agreements. These agreements included lease rate reductions on 47 aircraft, termination of obligations with respect to 20 parked aircraft, the cancellation of four future aircraft lease commitments and the restructuring of the overall obligations with respect to six aircraft.

On September 30, 2004, ACE and its subsidiaries entered into an amended and restated credit agreement (the "Exit Credit Agreement") to provide for the specific terms governing the exit financing. The Exit Credit Agreement provides for a U.S.$425 million non-revolving multicurrency term loan facility ("Loan A" or the "GECC Exit Financing"), an approximately U.S.$160 million non-revolving multiple draw credit facility ("Loan B") and an approximately U.S.$96 million term loan facility ("Loan C") which was available to fund a portion of the purchase of two Boeing 747-400 Combi aircraft from GECC if necessary. Loan A was advanced in one draw upon emergence from the proceedings under the CCAA. Concurrently with that advance, ACE terminated the availability of Loan B and Loan C, and accordingly no advances under either Loan B or Loan C were or will be made. Loan A matures on March 31, 2011 and no principal payments are required until June 30, 2007. The GECC Exit Financing was secured by a first priority security interest on all of the existing and after acquired property of the Corporation, other than leased assets, assets financed by other parties, and certain other excluded property of the Corporation (the "Security Package"). The Exit Credit Agreement contained a number of liquidity, earnings and collateral financial covenants as well as restrictive covenants which apply to ACE and each of its subsidiaries.

Pursuant to the termsheet for the RJ Financing (as defined below), GECC agreed to provide Air Canada with an amount of up to U.S.$950 million, of which Air Canada has advised GECC that it will need a maximum of U.S.$500 million to fund the purchase of new regional jet aircraft (the "RJ Financing"). The RJ Financing may be used in connection with up to 25 leases provided that the aircraft models and types are acceptable to GECC, with the remainder to be provided in the form of debt financing.

On September 30, 2004, Air Canada purchased from GECC two Boeing 747-400 Combi aircraft (which it was leasing at the time) for an aggregate amount of $353 million. The purchase price was paid for with $290 million in cash and the issuance of a limited-recourse loan in the amount of U.S.$50 million. The two Boeing 747-400 Combi aircraft were sold in December 2004 and January 2005 and the proceeds from such sale were used to repay the U.S.$50 million loan from GECC. Air Canada paid an amount of $45 million to GECC related to restructuring certain obligations with GECC.

An interfacility collateralization agreement was executed by the Corporation and the GECC entities concurrent with emergence from the CCAA proceedings. Pursuant to this agreement, all obligations of the Corporation under any agreement with, or for the benefit of GECC (including, but not limited to the GECC Exit Financing and the RJ Financing) have the benefit of being cross-collateralized to the Security Package for so long as the GECC Exit Financing is outstanding.

Pension Plan Arrangements

Air Canada sponsors 10 defined benefit registered pension plans for its employees and retirees in Canada. Canadian federal pension legislation requires that the funded status of registered pension plans be determined periodically on both a going concern basis (*i.e.*, essentially assuming indefinite plan continuation) and a solvency basis (*i.e.*, essentially assuming immediate plan termination). The solvency position of the pension plans deteriorated significantly in 2002 as a result of various macroeconomic developments, triggering a series of valuation and funding directions to Air Canada by OSFI, the federal pension regulator, in March 2003.

On September 30, 2004, after negotiations with OSFI and representatives of the pension plan stakeholders, the *Air Canada Pension Plan Solvency Deficiency Funding Regulations* came into effect. The Regulations extended the usual five-year amortization period for solvency deficits to ten years, and provided for the making of variable annual amortization payments according to an agreed schedule rather than the usual equal annual payments. Air Canada also issued a series of subordinated secured promissory notes in the aggregate amount of $346.6 million in favour of the pension plan trustees. The promissory notes are secured by a second priority charge over assets of Air Canada and certain of its affiliates and will be reduced by the capital portion of the solvency deficit amortization payments made by Air Canada to the pension plans in accordance with the agreed schedule.

Arrangements with Unions

Following its filing for protection under the CCAA, Air Canada concluded in 2003 new long-term collective agreements with the International Association of Machinists and Aerospace Workers (IAMAW), the Air Canada Pilots Association (ACPA), the Canadian Union of Public Employees (CUPE), the Canadian Air Line Dispatchers Association (CALDA), the National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW) and the International Brotherhood of Teamsters (IBT), which expire in 2009 and with the Transport and General Workers Union (TGWU) and Amicus, both in the United Kingdom, which were set to expire in 2006 (TGWU and Amicus have since extended their collective agreements to 2009). All these labour agreements were ratified by the members of their respective bargaining units. These collective agreements provide that, in 2006, the parties may negotiate the wage provisions for the balance of the collective agreement and, failing agreement of the parties as to adjustment upwards or downwards as circumstances may warrant, the matter shall be resolved by mediation or binding arbitration without resort to strike or lock-out. All unconditional employment security provisions in the collective agreements have been eliminated. All scheduled bonus payments and wage increases have been cancelled and all overtime is now paid at one and a half times the applicable pay rate.

These collective agreements provide for a large number of modifications to the work rules which are expected to result in productivity increases and increased flexibility for all union groups. Restrictions regarding the use of part-time employees have also been relaxed, allowing for cross-utilization of employees and extension of the working day. Furthermore, all Canadian union groups have accepted a one-week reduction in vacation time, depending on years of service, and a reduction to nine days in the number of statutory holidays.

All of the Corporation's unions, with the exception of the CAW, have agreements entitling them to participate in a profit-sharing program under which (i) 7.5% of adjusted pre-tax profits up to 7% of revenues, and (ii) 25% of adjusted pre-tax profits above 7% of revenues, will be distributed to eligible employees. Eligible employees represented by the CAW may participate in the corporate profit-sharing program upon approval of the program by CAW, which has yet to be obtained.

In the context of the restructuring, the Corporation reached agreements with its domestic labour unions providing for a combination of productivity improvements and wage reductions and received executed "clean slate" certificates from such unions. The members of the Corporation's unions ratified the agreements reached in May 2004. The revised collective agreements provide for wage reductions to be achieved by a combination of temporary and permanent wage rate reductions and changes to seniority progression rates. Other wage rate savings are achieved through the increased use of part-time labour permitted under the new agreements and replacements of higher seniority employees with new or lower seniority employees pursuant to the voluntary separation programmes negotiated. On September 30, 2004, the Corporation entered into "clean slate" provisions dealing with all outstanding grievances where the parties agreed to resolve, waive or compromise outstanding grievances.

On October 1, 2004, the United Kingdom unions, TGWU and Amicus, requested a negotiation of the wage provision. In January 2005, Air Canada concluded an agreement with Amicus which was ratified by its union membership on January 31, 2005. In February 2005, Air Canada concluded an agreement with the TGWU which was ratified by its union membership on March 1, 2005. The accords extend to 2009 the collective agreements concluded in 2003 with the amendments made in 2004 that were set to expire in 2006. Wages only may be renegotiated in 2006. The agreement does not provide for a general wage adjustment but includes some targeted modifications to the wage structure. Amicus agreed to the introduction of a defined contribution pension plan for newly hired employees.

Real Estate Facilities and Contracts Renegotiation and/or Repudiation

During the restructuring period, the Corporation reviewed all of its real estate facilities with a view to eliminating unused or under-utilized facilities and to consolidate its operations to further reduce operating costs. As a result of this review, a total of 44 real property leases were repudiated or assigned from April 1, 2003 to December 31, 2003. In addition, the Corporation evaluated all of its contracts for goods and services to identify opportunities to consolidate its supply base, to better leverage its buying power, and to take advantage of the opportunity represented by the restructuring process to repudiate contracts that were unfavourable. Significant savings have been achieved by the Corporation from this renegotiation and/or the repudiation of various contractual commitments.

Negotiations with Aircraft Lessors

During the restructuring period, Air Canada conducted extensive negotiations with its aircraft lessors and financiers to restructure its aircraft ownership and leasing costs. Through these efforts, Air Canada has achieved: (i) reduced ownership and leasing costs more consistent with current market conditions, (ii) modified lease expiry dates based on planned new aircraft acquisitions and scheduled heavy maintenance requirements, and (iii) satisfactory aircraft return conditions consistent with modified lease expiry dates. Pursuant to these negotiations, during the period from April 1, 2003 until December 31, 2004, the Corporation eliminated 64 leased aircraft from its fleet and significantly reduced its future aircraft ownership and leasing costs. Additional fleet reductions continue to be anticipated as the Corporation has early lease termination rights with respect to certain aircraft prior to December 31, 2005. In addition, Air Canada has entered into the GECC Agreements with GECC which covered approximately one-third of its fleet.

DESCRIPTION OF THE BUSINESS

Overview

ACE is the parent holding company of Air Canada and ACE's other subsidiaries.

Air Canada is Canada's largest domestic and international full-service airline and the largest provider of scheduled passenger services in the domestic market, the transborder market and each of the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada-South America markets. Passenger transportation is the principal business of the Corporation and, in 2004, represented 82% of its total operating revenues.

Air Canada and Jazz Air Limited Partnership ("Jazz"), the Corporation's regional carrier, operate an extensive domestic, transborder and international network. During 2004, Air Canada and Jazz operated, on average, approximately 1,200 scheduled flights each day and carried over 29 million passengers. In 2004, Air Canada and Jazz provided direct passenger air transportation to 144 destinations and, through commercial agreements with other unaffiliated regional airlines, referred to as tier III carriers, to an additional 21 destinations, for a total of 165 direct destinations on five continents. The Corporation's primary hubs are located in Toronto, Montreal, Vancouver and Calgary and, in 2004, its passengers accounted for approximately 50%, 50%, 49% and 44% of daily passenger traffic through these hubs, respectively.

Air Canada also operates an extensive global network in conjunction with its international partners. Air Canada is a founding member of the Star Alliance network, the world's largest airline alliance group. The Star Alliance network has grown, since its inception, to include 16 members and three regional members. Through its strategic and commercial arrangements with Star Alliance members and several other airlines, Air Canada offers service to over 700 destinations in 133 countries, with reciprocal participation in frequent flyer programs and use of airport lounges.

In addition, the Corporation owns Aeroplan, which operates Canada's premier loyalty program, with approximately six million members, and Destina.ca, which is an on-line travel site. The Corporation also provides Technical Services through ACTS LP, Cargo Services through AC Cargo LP and Air Canada, Groundhandling Services through ACGHS LP and Air Canada and tour operator services and leisure vacation packages through Touram Limited Partnership ("Touram LP").

New Business Strategy

In order to respond to a rapidly changing landscape, including increasing competition from low-cost carriers, in 2003 and 2004 Air Canada fundamentally changed its business strategy and redesigned its business process. The Corporation designed and embarked on a new business plan to: (i) solidify its domestic market position through a superior product offering at a competitive cost; (ii) provide a solid foundation for its growing international markets; and (iii) maximize the value inherent in ACE's subsidiaries.

The Corporation's new business strategy is based on the following four major components, each of which is further described below:

(i) a competitive cost structure;

(ii) a redesigned network to maximize efficiency and leverage international growth opportunities;

(iii) a customer driven revenue model for passenger services; and

(iv) a new corporate structure to maximize the value of its subsidiaries.

Competitive Cost Structure

The foundation of the new business strategy is a competitive cost structure. As a result of the CCAA restructuring process, the Corporation was in a position to restructure its costs. Air Canada's restructuring plan specifically targeted cost reductions in three main areas: (i) labour; (ii) aircraft lease and ownership charges; and (iii) supplier contracts. Since 2002, cost savings amounting to approximately $1.5 billion have been achieved in these areas. Based on the Corporation's current business plan, management is targeting annual savings of $2 billion in these areas by 2006, as compared to 2002. Given the significant changes in other cost areas such as fuel prices, airport and navigation fees and changes in passenger volumes and flying activity, these savings may not be readily identifiable from a review of the operating expense line on the statement of operations of the Corporation.

The Corporation believes that its new cost structure will allow it to compete more effectively with other industry players in each of its targeted market segments. The Corporation's focus on cost reductions is reflected in all components of the new business strategy, and includes:

(i) an important reduction in labour costs resulting from higher productivity, a rationalized work force and lower average salaries;

(ii) the repudiation and renegotiation of various contractual obligations, including those related to aircraft, real estate and suppliers;

(iii) a fleet simplification through the elimination of older, less efficient aircraft and the increased utilization of new large regional jet aircraft with lower trip costs in order to better match capacity with demand, as well as a reduction in the number of aircraft types in order to lower maintenance, inventory and pilot training costs;

(iv) the increasing use of technology in order to reduce costs, including:

- the increased utilization of the Internet as a distribution channel, which accounted for 28% of system-wide bookings and over 50% of domestic bookings in January 2005;
- the progressive elimination of high cost paper-based ticketing in favour of electronic ticketing which, in 2004, represented in excess of 79% of the Corporation's tickets issued worldwide; and
- a rollout of self-service airport check-in kiosks, which currently service over an average of 30% of the Corporation's customers departing from the airports where such kiosks are available.

Unlike its low-cost competitors, the Corporation incurs costs related to the offer of value-added transportation services, such as Executive Class services and other non-air services. The Corporation believes that these costs are offset by a revenue premium, driven primarily by higher passenger yield and Passenger Load Factor, increased international connecting traffic and increased Aeroplan and cargo revenues. The Corporation expects to maintain this revenue premium by continuing to leverage its key competitive advantages, including:

(i) a more extensive route network, greater flight frequency and greater market presence;

(ii) value-added services for which customers are willing to pay a premium, including unlimited schedule changes, same day stand-by, advance seat selection, full Aeroplan mileage, concierge service and Executive Class service; and

(iii) higher yielding international (including transborder) connections, which currently represent approximately 30% of the Corporation's domestic traffic.

Redesigned Network to Maximize Efficiency and Leverage International Growth Opportunities

The Corporation's objective is to become the customer's clear choice in all the markets in which it competes by offering a better scheduled product at a competitive price. To this end, the Corporation's redesigned network focuses on offering high flight frequency on key domestic and transborder routes, while maintaining competitive frequency on other domestic and transborder routes, and reducing the average seating capacity per departure.

To this end, Jazz, the Corporation's regional carrier, forms an integral part of Air Canada's domestic and transborder market strategy. The Corporation expects to achieve its objectives through the increased use of large regional jet aircraft which have lower trip costs. This initiative, for which deliveries commenced in October 2004, will see Air Canada and Jazz add 90 new regional jet aircraft to their fleet by 2008. In addition, as a result of agreements reached with Air Canada's and Jazz's unions during Air Canada's restructuring under the CCAA, all of the Corporation's Bombardier CRJ aircraft will be operated out of Jazz's regional operations. The Corporation expects that the lower trip costs of these regional jet aircraft will enable it to compete more effectively with low-cost carriers. This strategy should allow the Corporation to operate its network more efficiently by better matching capacity with demand and by facilitating connections in a timely fashion.

Since international services generally produce higher margins than domestic and transborder services, the Corporation also intends to expand its existing services to international destinations and serve new international destinations. The Corporation believes that it is well positioned to grow its international services and increase its current market share by leveraging the following competitive advantages:

(i) its superior international network;

(ii) its widely recognized brand and its strong position in the market for trans-Atlantic and trans-Pacific travel to and from Canada and more recently in the Canada-South America market;

(iii) its competitive position with respect to labour costs as compared to major international legacy carriers, which results in part from the restructuring process; and

(iv) its ability to capitalize on the relative speed and convenience associated with having its hubs located in Canada which, unlike the United States, does not currently require a visa from residents of certain countries transiting through the country.

For domestic, transborder and international services, the Corporation will continue to leverage the strengths of its Aeroplan program.

Customer Driven Revenue Model for Passenger Services

The Corporation's new revenue model for passenger services is aimed at improving customer satisfaction and retention by focusing on simplicity, value, choice, transparency and flexibility for the customer and is resulting in greater passenger volume, higher Passenger Load Factors and increased cost efficiency for Air Canada and Jazz.

The new revenue model is based on five simple fare types ranging from low one-way fares, substantially similar to those offered by low-cost carriers, to Executive Class fares. The new fares are based on different combinations of product attributes, including the ability to make changes to reservations, seat selection and Aeroplan mileage. The new model provides transparency by allowing customers to compare prices and travel options and select the most suitable fare. The Corporation believes that this establishes a clear link between price and value and will be a key driver in achieving customer loyalty.

The new revenue model was introduced in Air Canada's and Jazz's domestic markets in May 2003. In February 2004, the new revenue model was expanded to most destinations in the continental United States served by Air Canada and Jazz in cooperation with United Airlines, one of Air Canada's Star Alliance partners. The Corporation believes that its increasing use of the Internet to improve its distribution network has facilitated market acceptance of its new revenue model. Air Canada also intends to implement a similar fare structure for its international services.

New Corporate Structure to Maximize the Value of Subsidiaries

In connection with the implementation of the Plan, a new corporate structure was established pursuant to which the various business segments that were formerly within Air Canada became stand-alone subsidiaries of ACE. The new corporate structure was designed to:

(i) put in place separate management and business plans for each subsidiary to better focus their strategic direction and profit making efforts;

(ii) align management, capital and human resource needs within each individual business;

(iii) facilitate the development of each business segment to its fullest individual potential including, where appropriate, through the pursuit of third party sources of business; and

(iv) maximize subsidiaries' value that was not fully recognized when the business segments were part of Air Canada.

ACE's subsidiaries are at varying stages of their corporate development and maximizing value at these entities is a priority in the efforts of ACE's senior management. ACE's value enhancement strategy in respect of its stand-alone subsidiaries includes considering stand-alone financings, sales or distributions of equity interests and involving outside investors for these and other purposes. ACE is examining a range of alternatives to maximize the value of its investment in Aeroplan for the benefit of all of its shareholders.

From time to time, ACE reviews acquisition opportunities in respect of businesses or assets that may be complementary to its own. Where appropriate to increase shareholder value, ACE may consider entering into acquisitions and joint ventures, although no decision has been made in respect of any such acquisition or joint venture opportunity.

In addition, ACE is pursuing internal growth opportunities at its various subsidiaries. In particular, Aeroplan intends to grow its revenues through greater access to Air Canada's network for mileage redemption and

the addition of new partners across various retail segments. ACTS LP intends to leverage its unused capacity by developing its third party customer base, including U.S. carriers that have recently increased their outsourcing of MRO work.

Business of ACE

ACE has four core activities: (i) transportation services which are offered through Air Canada and certain other subsidiaries of ACE; (ii) loyalty program services, which are offered through Aeroplan; (iii) Technical Services, which are offered through ACTS LP; and (iv) regional operations provided by Jazz under its capacity purchase agreement with Air Canada. The table below sets forth the relative financial result of each business activity for the period ended December 31, 2004:

	ACE SUCCESSOR COMPANY PERIOD ENDED DECEMBER 31, 2004					
	Transportation Services[1]	Loyalty Program	Technical Services	Regional Operations[2]	Inter-Segment Elimination	ACE Consolidated
Operating Revenue						
Passenger Revenue	$ 1,680	$ —	$ —	$ 1	$ —	$ 1,681
Cargo Revenue	151	—	—	—	—	151
Other Revenue[3]	40	126	62	2	—	230
Inter-segment Revenue	54	6	122	185	(367)	—
Total Revenue	1,925	132	184	188	(367)	2,062
Operating Expenses	1,997	107	162	166	(367)	2,065
Operating Income (Loss)	$ (72)	$ 25	$ 22	$ 22	$ —	$ (3)

(1) Includes revenues and costs for Air Canada's mainline operations, Jazz's transportation revenues and fees to Air Canada's mainline operations for Jazz's operations under its capacity purchase agreement with Air Canada, as well as AC Cargo LP, Destina.ca, AC Online LP, ACGHS LP, Touram LP and ACE operations.

(2) Includes Jazz's operations under the capacity purchase agreement with Air Canada.

(3) Includes revenues and costs for Touram LP, Destina.ca and Groundhandling Services (offered through ACGHS LP).

Passenger Services — Air Canada and Jazz

Air Canada and Jazz are the Corporation's mainline and regional airline carrier, respectively. Passenger transportation is the principal business of the Corporation and, for the period ended December 31, 2004, its passenger revenues were derived from domestic, transborder and international services in the proportions shown in the table below:

	Passenger Revenues Period ended December 31, 2004
Domestic	40%
Transborder	20%
International	40%
Total	100%

Air Canada is Canada's largest domestic and international full-service airline and the largest provider of scheduled passenger services in the domestic market, the transborder market and each of the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada-South America markets.

Jazz, the Corporation's regional carrier, provides service to lower density markets throughout Canada and to certain destinations in the United States, and forms an integral part of Air Canada's domestic and transborder

market strategy. Jazz's regional network connects passengers and provides valuable traffic feed to Air Canada's mainline routes.

Under a new capacity purchase agreement between Air Canada and Jazz that came into effect on September 30, 2004, Air Canada assumes the revenue risks and is responsible for all commercial aspects of the flying performed by Jazz, such as schedule planning, revenue management, marketing and advertising. Air Canada pays to Jazz certain fees relating to the flight operations performed, passengers carried and other items covered by the capacity purchase agreement. As a result, Jazz is now focused on continuing to reduce its unit costs while also maximizing operational excellence.

The Corporation believes that Jazz's costs are competitive with those of the leading U.S. regional carriers and Canadian low-cost carriers. As a result of agreements reached with Jazz's and Air Canada's unions during Air Canada's restructuring under the CCAA, all of the Corporation's Bombardier CRJ aircraft will be operated out of Jazz's regional operations by the second quarter of 2006 and certain routes will be realigned, in order to enable the Corporation to compete more effectively with low-cost carriers. Additionally, an initiative for which deliveries started in 2004 will see Jazz add 38 new and used regional jets to its fleet by 2006. See "*Description of the Business — Fleet*".

Domestic Services

Air Canada and Jazz provide the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 54 Canadian destinations. Based on OAG data, the Corporation estimates that in March 2005, it will provide approximately 55% of the Canadian airline industry's overall domestic scheduled capacity, as measured by ASMs, before taking into account Jetsgo ceasing its operations. The most important Canadian routes, in terms of operating revenues, are the transcontinental routes linking Toronto, Montreal and Ottawa with major Western Canadian cities, including Vancouver, Calgary, Edmonton and Winnipeg. Air Canada and Jazz operate several short-haul commuter routes, including Rapidair routes, linking Toronto, Montreal and Ottawa. The Corporation also offers frequent service linking major centres within Western Canada and operates numerous flights between Calgary and Vancouver and between Calgary and Edmonton. In addition to transcontinental and commuter routes, Air Canada and Jazz provide service between and within Central Canada, the Prairies and the Atlantic Provinces.

Unaffiliated regional carriers, referred to as tier III carriers, replace Jazz in markets not sufficiently large to be served directly. These airlines operate flights under Air Canada's designator code and provide service to an additional 14 domestic destinations under capacity purchase agreements with the Corporation. The Corporation does not own an equity interest in any of these carriers.

Transborder Services

With the most non-stop destinations and flights to the United States, Air Canada and Jazz carry more passengers between Canada and the United States than any other airline. Based on OAG data, the Corporation estimates that in March 2005, it will provide approximately 40% of the overall transborder scheduled capacity, as measured by ASMs, before taking into account Jetsgo ceasing its operations. Air Canada and Jazz directly serve 70 routes to 42 U.S. destinations with approximately 2,350 weekly flights. Air Canada's network reach is also increased by its extensive connections to, and Code-sharing flights, with United Airlines, one of its Star Alliance partners.

Air Canada continues to adjust and optimize Air Canada's and Jazz's capacity to the United States, while maintaining a competitive schedule in key markets.

International Services

Air Canada is uniquely positioned as Canada's largest scheduled international airline. According to OAG data, Air Canada ranks as the 14th largest international carrier in the world, based on ASMs, and provides scheduled service directly to 48 destinations in Europe, the Middle East, Asia, Australia, the Caribbean/Central America and South America. Based on OAG data, the Corporation estimates that in March 2005, it will provide approximately

45% of the overall scheduled international capacity between Canada and Europe and Canada and Asia, as measured by ASMs.

Air Canada has major trans-Atlantic operations to the United Kingdom, Germany and France. For example, Air Canada currently operates nine daily flights to London Heathrow, three daily flights to Frankfurt, one daily flight to Munich and two daily flights to Paris. During the summer of 2004, Air Canada offered 14 daily flights to London Heathrow, five daily flights to Frankfurt, one daily flight to Munich and four daily flights to Paris. Air Canada is planning to offer a similar level of service to those destinations during the summer of 2005. Air Canada also continues to offer daily seasonal services to Amsterdam, Zurich, Dublin, Shannon, Glasgow and Manchester. In April 2005, Air Canada will resume offering service to Rome.

Air Canada also has significant operations to the Asia-Pacific market via its Vancouver and Toronto hubs. Air Canada operates daily non-stop flights to Japan (Vancouver and Toronto to Tokyo and Vancouver to Osaka), China (Vancouver to Beijing and Shanghai), Hong Kong (out of Vancouver and Toronto), Korea (Vancouver to Seoul) and India (Toronto to Delhi), the only non-stop service from North America to India. In the summer of 2005, Air Canada will be introducing non-stop service between Toronto-Seoul and Toronto-Beijing. In addition to targeting business travelers, these services also capitalize on the high volume of passengers who visit friends and relatives in Asia and Canada. The Corporation believes that the Asia-Pacific market currently represents an area of growth for air travel. In 2004, the Asia-Pacific market recovered from the SARS events and Air Canada's capacity to the Asia-Pacific market was increased by approximately 53% over 2003.

In addition, Air Canada has expanded its services to South America, Australia and Central America/Caribbean. Currently, Air Canada provides scheduled service directly to six destinations in South America, one in Australia, two in Central America and 22 in the Caribbean. During 2004, capacity to South America, Australia, Central America and the Caribbean (including charter) increased by 28% over 2003. In particular, Air Canada has significantly increased its presence in South America. Today, Air Canada operates flights to Argentina (Buenos Aires), Brazil (Sao Paulo), Chile (Santiago), Colombia (Bogota), Peru (Lima) and Venezuela (Caracas).

Within the Caribbean, Air Canada operates flights to 22 destinations, including two to Jamaica and three to the Dominican Republic. Within Central America, Air Canada operates flights to Costa Rica (year-round to San Jose and seasonally to Liberia). In Australia, Air Canada operates daily flights to Sydney (twice daily during the winter). Air Canada also operates service to Mexico, including year-round flights to Mexico City and Cancun, and seasonal flights to Puerto Vallarta, Cozumel and Ixtapa.

Star Alliance

Air Canada is a founding member of the Star Alliance network, the world's largest airline alliance group. Air Canada operates an extended global network in conjunction with its international partners.

The Star Alliance network has grown, since its inception in 1997, to include the following 16 airlines: Air Canada, United Airlines, Lufthansa, SAS, Thai Airways, VARIG, Air New Zealand, All Nippon Airways, Austrian Airlines, Singapore Airlines, British Midland, Asiana Airlines, Spanair, LOT Polish Airlines, US Airways and TAP Air Portugal. The Star Alliance network also includes three regional members: Blue 1 (Finland), Adria Airways and Croatia Airlines. South African Airways is expected to join in 2006.

Through its strategic and commercial arrangements with Star Alliance members and several other airlines, Air Canada offers service to over 700 destinations in 133 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance facilitates Code-sharing and passenger connections and transfers by providing a higher level of service between network connection points (which may include one stop check-in). The airlines have implemented initiatives, such as common utilization of facilities, and are focusing on capturing potential synergies in areas such as joint purchasing. Air Canada now Code-shares with all Star Alliance members, except US Airways and the three regional members. The Corporation anticipates that it will commence Code-sharing with US Airways following the completion of US Airways' current restructuring.

Fleet

The Corporation has been simplifying its fleet structure to support its new business strategy. This fleet simplification includes the elimination of older, less efficient aircraft which were not economically viable in the new market environment. Additionally, the Corporation is increasing utilization of new large regional jet aircraft which have lower trip costs. The new regional jet aircraft are key to the Corporation's strategy, which involves offering high flight frequency on key domestic and transborder routes, while maintaining competitive frequency on other domestic and transborder routes. The use of regional jet aircraft also allows the Corporation to better match capacity with demand, by reducing the average seating capacity per departure, and supports the more efficient use of the Corporation's network and hubs. These large regional jets have lower trip operating costs than conventional narrowbody aircraft. As a result of this fleet simplification, 64 leased aircraft were eliminated from the fleet from April 1, 2003 to December 31, 2004 and three aircraft types, Boeing 747-400, Boeing 737-200 and Fokker F-28, were removed from active service. In 2005, the BAE 146 fleet type was removed from service. Such a reduction in the number of aircraft fleet types is expected to contribute to cost savings in the areas of maintenance, inventories and pilot training. In particular, the commonality of the remaining Airbus widebody and narrowbody aircraft is expected to provide an enhanced opportunity for cost savings in these areas.

The fleets at December 31, 2004, as well as the planned fleets for 2005 to 2007 for Air Canada and Jazz, respectively, are as follows:

	Number of Operating Aircraft Dec 31/04	Planned Operating Fleet Dec 31/05	Planned Operating Fleet Dec 31/06	Planned Operating Fleet Dec 31/07
Air Canada				
Widebody Aircraft				
Airbus A340-300	9	10	10	10
Airbus A340-500	2	2	2	2
Airbus A330-300	8	8	8	8
Boeing 767-300 ER	30	33	32	30
Boeing 767-200/200ER	12	12	11	9
	61	**65**	**63**	**59**
Narrowbody Aircraft				
Airbus A321	13	10	10	10
Airbus A320	52	51	48	43
Airbus A319	48	48	46	46
CRJ-100(1)	25	10	0	0
ERJ-190(2)	0	4	20	44
ERJ-175	0	15	15	15
	138	**138**	**139**	**158**
Total (Air Canada)(3)	**199**	**203**	**202**	**217**
Jazz				
CRJ-100/200(1)(4)	18	48	58	58
CRJ-700, Series 705	0	15	15	15
BAE 146	2	0	0	0
DHC-8-300	26	26	26	26
DHC-8-100	45	37	35	29
Total (Jazz)(3)	**91**	**126**	**134**	**128**
Total (Air Canada and Jazz) (3)	**290**	**329**	**336**	**345**

(1) 15 CRJ-100 will be transferred from Air Canada's fleet to Jazz's fleet in 2005 and 10 CRJ-100 will be transferred from Air Canada's fleet to Jazz's fleet by the second quarter of 2006.

(2) One additional ERJ-190 aircraft has been ordered for delivery after December 31, 2007.

(3) In addition to operating aircraft, as at December 31, 2004, Air Canada had 12 widebody aircraft and 19 narrowbody aircraft that were parked and Jazz had 32 parked aircraft and two BAE 146 aircraft were available as operational spares. As part of the Corporation's long-term fleet plan, a further 15 70-100 seat regional jet aircraft of a type to be determined have yet to be ordered.

The Corporation is currently evaluating its widebody fleet options. A cornerstone of the Corporation's strategy going forward will be the growth of its international operations. In order to support the expansion of these operations, the Corporation is planning to take delivery of additional widebody aircraft in 2005, including one leased Airbus A340-300 aircraft and three leased Boeing 767-300 aircraft. Two currently-owned Boeing 767-200 aircraft will also be reintroduced into active service in early 2005.

In addition, the Corporation is studying new aircraft alternatives from both Boeing (the 787 and 777 series aircraft) and Airbus (the A330, A340 and A350 series aircraft). The acquisition of further used aircraft to provide the units needed for growth is not viewed as a likely outcome, due to the current and anticipated medium-term lack of availability of the appropriate aircraft. Part of any order will be made in order to replace the Corporation's current fleet of Boeing 767 aircraft with the Boeing 787 aircraft or the Airbus A350 aircraft, which aircraft will become available during the 2008-2010 period.

On September 24, 2004, a definitive purchase agreement with Bombardier Inc. was signed covering firm orders for 15 Bombardier CRJ 700 Series 705 aircraft and 30 Bombardier CRJ-200 aircraft, of which 15 are firm and 15 may be cancelled by Air Canada without penalty. The purchase agreement also contains options for an additional 45 aircraft. Deliveries of the CRJ 200 aircraft to Jazz commenced on October 21, 2004 and by March 17, 2005, 14 CRJ 200 aircraft had been delivered. Deliveries of the CRJ 700 Series 705 aircraft to Jazz are scheduled to commence in May 2005. On September 29, 2004, the Corporation announced that a definitive purchase agreement was concluded with Empresa Brasileira de Aeronautico S.A. (Embraer) covering firm orders for 45 Embraer 190 aircraft. The purchase agreement contains rights to exercise options for up to 45 additional Embraer 190 aircraft. Deliveries are scheduled to commence in November 2005. In addition, on November 12, 2004, the Corporation announced that it had reached an agreement with Embraer to purchase 15 Embraer 175 aircraft. The order also contemplates the potential to exercise options for an additional 15 Embraer aircraft. Deliveries are scheduled to commence in July 2005. In addition, the Corporation is planning to add eight used Bombardier CRJ-200 to Jazz's fleet beginning in 2005.

Widebody Aircraft

At December 31, 2004, Air Canada's operating widebody fleet comprised 61 aircraft, configured in two classes of service: Executive First or Executive Class, and Hospitality Service. The Airbus A340-300 is a four-engine 282-seat aircraft that serves Air Canada's trans-Pacific and trans-Atlantic routes. The Airbus A340-500 aircraft, with 267 seats, is a longer range aircraft than the A340-300 which currently serves Air Canada's Toronto-Hong Kong route on a non- stop basis. The Airbus A330-300 aircraft, with 274 seats, is a twin-engine variant of the Airbus A340-300 that Air Canada operates mainly on trans-Atlantic routes. The Boeing 767-300 ER is a long-range 212-seat aircraft used mainly on international routes. The Boeing 767-200 is a 198-seat aircraft used on domestic and international routes.

Narrowbody Aircraft

At December 31, 2004, Air Canada operated 138 narrowbody aircraft, including 113 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Hospitality Service (except for 25 regional jets (discussed below), which are only configured in Hospitality Service). The Airbus A320 aircraft is a 140-seat, twin-engine aircraft. The twin-engine Airbus A319 offers 120 seats and is essentially a shortened version of the Airbus A320 aircraft, with the same engines, operating systems and flight deck. The twin-engine Airbus A321 is the largest narrowbody aircraft in the Airbus family, with 166 seats. All of these narrowbody aircraft types primarily serve Air Canada's domestic and transborder routes.

Regional Jet and Turboprop Aircraft

At December 31, 2004, Air Canada operated 25 regional jet aircraft and Jazz operated an additional 20 regional jet aircraft. By the second quarter of 2006, all of Air Canada's Bombardier CRJ-100 regional jet aircraft will be transferred to Jazz's operations and Jazz will operate an all Bombardier regional jet fleet of 73 aircraft. The Bombardier CRJ-200 is a 50-seat twin-engine regional jet aircraft used primarily to serve lower density markets on routes of less than 1,000 miles, and to serve larger markets at "off peak" times. These aircraft are also used in selected "point-to-point" markets, transborder markets, and to develop selected domestic markets. The BAE 146

aircraft, a four-engine regional jet aircraft used to serve lower density markets and larger markets at "off-peak" times, was removed from service in 2005. At December 31, 2004, Jazz also operated 71 turboprop aircraft (DHC-8). The de Havilland DHC-8 is a twin-engine turboprop aircraft used to serve smaller markets and to feed connecting traffic to Air Canada's hubs.

Fuel

Aircraft fuel is a major expense to companies operating within the airline industry. Since fuel costs represent a significant portion of the Corporation's operating costs, substantial changes in fuel costs would materially affect operating results. Fuel prices continue to be susceptible to factors such as political unrest in various parts of the world, Organization of Petroleum Exporting Countries (OPEC) policy, the level of demand from emerging economies, such as China, the level of inventory carried by the industry, the level of fuel reserves maintained by governments, disruptions to production and refining facilities and the weather. These and other factors will affect the price of fuel, which in turn affects the Corporation's financial performance. Based on 2004 volumes, the Corporation estimates that a U.S.$1 per barrel movement in the price of West Texas Intermediate crude oil would have resulted in an approximate C$28 million change in 2004 fuel expense for Air Canada (excluding any impact of fuel surcharges), assuming flying capacity remained unchanged and that refining spreads between West Texas Intermediate crude oil and jet fuel as well as foreign exchange rates remained constant. The Corporation currently has no hedges for its anticipated 2005 fuel consumption.

Airport Hubs

Air Canada's primary hub is located in Toronto, and its other hubs are located in Montreal, Vancouver and Calgary. Toronto's Pearson Airport is Canada's largest airport and Air Canada's largest hub. Air Canada is the principal tenant in each of Pearson's new Terminal 1 and Pearson's Terminal 2 and, in 2004, it accounted for approximately 50% of its daily passenger traffic. In April 2004, Air Canada moved its domestic operations and international check-in to the new Terminal 1, the first phase of the new passenger handling facilities at Pearson.

Air Canada operates a hub at Montreal's Pierre-Elliott Trudeau International Airport and, in 2004, its passengers accounted for approximately 50% of Montreal's daily passenger traffic. Montreal is a hub for domestic, transborder and international (primarily trans-Atlantic) traffic. In 2004, Air Canada continued to strengthen its Montreal hub by adding new non-stop links and increasing the number of scheduled flights to high volume markets. Air Canada also operates hubs at Vancouver International Airport and Calgary International Airport and, in 2004, its passengers accounted for 49% and 44% of Vancouver's and Calgary's daily passenger traffic, respectively. Vancouver and Calgary are hubs for domestic, transborder and international (primarily trans-Pacific in the case of Vancouver) traffic.

Distribution Network

Through the use of technology and other initiatives, the Corporation is expanding its distribution network, reducing costs and enhancing the customer experience. Such initiatives include the following:

(i) the Corporation intends to continue to increase the use of its on-line services. In January 2005, on-line bookings on Air Canada's website represented 28% of system-wide bookings and over 50% of domestic bookings;

(ii) during 2004, approximately 86% of the Corporation's tickets issued for the domestic market were electronic tickets. Overall, during the same period, approximately 79% of all tickets issued by the Corporation were electronic tickets;

(iii) Air Canada and United Airlines, one of Air Canada's Star Alliance partners, have an inter-airline (interline) electronic ticketing service, making it possible for customers to use a single electronic ticket for travel on both airlines. The Star Alliance network recently launched an interline ticketing service. It is expected that by the end of August 2005, all Star Alliance members will have interline capabilities, making it possible for customers to travel across the entire Star Alliance network using a single electronic ticket;

(iv) approximately 195 self-service airport check-in kiosks are located in Canadian airports, at New York's LaGuardia Airport and London Heathrow Airport. An average of over 30% of the Corporation's passengers departing from these airports use this fast alternative to check-in to obtain boarding passes, confirm or select their seats, select the frequent flyer program for mileage accrual, stand by for earlier flights or request an upgrade; and

(v) the Corporation offers an enhanced Internet check-in for Air Canada and Jazz flights within Canada and departing Canada (for outbound transborder and international flights).

Other Subsidiaries

In connection with the implementation of the Plan, a new corporate structure was established pursuant to which the various business segments that were formerly within Air Canada became stand-alone subsidiaries of ACE. The new corporate structure was designed to:

(i) put in place separate management and business plans for each subsidiary, to better focus their strategic direction and profit-making efforts;

(ii) align management, capital and human resource needs within each individual business;

(iii) facilitate the development of each business segment to its fullest individual potential including, where appropriate, through the pursuit of third party sources of business; and

(iv) maximize subsidiaries' value that was not fully recognized when the business segments were part of Air Canada.

The following sections present an overview of the business of each of the main non-airline subsidiaries of ACE.

Aeroplan

Through Aeroplan, ACE owns Canada's premier loyalty program with approximately six million members. Aeroplan was voted the World's Best Frequent Flyer Program for the second consecutive year at the 2003 OAG Airline of the Year Awards and, in early 2004, it received an award at the Annual Industry Impact Awards, for the Air Canada-Aeroplan Personalised Elite Program Benefits, recognizing the expanded choices and flexibility given to Elite members.

The Aeroplan customer loyalty program offers miles accumulation and redemption as an incentive to the Corporation's and other partners' customers. Aeroplan receives cash upon the sale of Aeroplan miles that, on average, will be redeemed over two years. Aeroplan members can earn Aeroplan miles through an extensive network of over 100 partnerships with airline, hotel, car rental, financial, telecommunication, retail, services and entertainment partners. Aeroplan members can redeem their miles for reward travel to over 750 destinations in 133 countries served by Air Canada, Jazz, Star Alliance member airlines and other Aeroplan partner airlines. Aeroplan members can also redeem their miles for a wide variety of exclusive rewards as well as car rentals, hotel stays, ski, lifestyle and Air Canada Vacations packages. Aeroplan's website, www.aeroplan.com, allows members to access their account balance and to book on-line air travel rewards on Air Canada and Jazz. On-line redemptions of Aeroplan miles now account for approximately 30% of total redemptions.

Aeroplan has co-branded card arrangements with banks in Canada and the United States pursuant to which such banks purchase Aeroplan miles from Aeroplan, which are then allocated to their respective cardholders based upon an "earn ratio" specific to the particular cards for purchases charged to their respective co-branded cards.

Aeroplan also manages the Prestige, Elite and Super Elite membership programs for the Corporation's most frequent flyers and also offers complementary programs like the Aeroplan Business Incentive Program, which is used by small to medium-sized businesses to generate customer and employee loyalty.

On April 22, 2004, Aeroplan announced the implementation of a series of major service improvements to facilitate the booking of reward travel. These improvements include (i) the addition of up to two million supplementary seats on Air Canada's, Jazz's and their affiliate airlines' flights for reward travel each year, (ii) the elimination of blackout periods, and (iii) access by members to up to 15% of Air Canada's (and its unaffiliated regional carriers referred to as tier III carriers) and Jazz's capacity on every route every month.

Aeroplan is a growing high margin business. It intends to increase its revenues through the expansion of its relationships with existing partners and the addition of new partners across various retail segments. In that regard, in 2004, Aeroplan entered into relationships with leading retail partners such as Future Shop, Imperial Oil (Esso) and Bell Canada. Aeroplan also intends to improve its productivity and margins by increasing its shift to lower cost self-service distribution channels.

ACE is examining a range of alternatives to maximize the value of its investment in Aeroplan for the benefit of all of its shareholders.

Technical Services

ACTS LP provides Technical Services and competes on a global basis as a heavy maintenance, aircraft engine, auxiliary power unit and component maintenance, repair and overhaul service provider and a training service provider. ACTS LP is responsible for providing maintenance, engineering and repair work for Air Canada's fleet (other than Air Canada's line maintenance which is done by Air Canada) and for providing maintenance services to airline customers worldwide. ACTS LP has over 80 customers, including Airborne Express Inc., Air Norterra, Independence Air (formerly known as Atlantic Coast Airlines), Canadian Department of National Defence, JetBlue Airways, Lufthansa, Brendan Airways LLC (doing business as USA 3000), Air Transat, International Lease Finance Corporation, Pratt & Whitney, Chromalloy Gas Turbines Inc. and Skyservice Airlines Inc. The major maintenance facilities for Technical Services are located in Montreal, Toronto, Vancouver, Calgary and Winnipeg.

The Corporation believes that ACTS LP's technical expertise is widely recognized in the aviation industry. Increasingly, many airlines and leasing companies prefer dealing with a single MRO provider that has the expertise necessary to take charge of all of their MRO work, including major overhauls, component and engine repairs and regulatory compliance. ACTS LP is positioning itself to pursue a greater market share by profitably providing value-added full service integrated solutions that offer continuous cost improvement to its airline customers.

ACTS LP has a highly trained and experienced workforce. The restructuring process allowed ACTS LP to implement an important reduction in labour costs resulting from higher productivity, a rationalized work force and lower average salaries. ACTS LP has the ability to significantly increase the volume of its business with its current infrastructure and facilities. The Corporation's strategy is to leverage ACTS LP's unused capacity by developing relationships with third party customers, in particular U.S. carriers that have recently increased their outsourcing of maintenance work.

Cargo Services

AC Cargo LP and Air Canada provide Cargo Services on domestic, transborder and international flights. AC Cargo LP is a major Canadian air cargo carrier that utilizes the entire cargo capacity on aircraft operated by Air Canada and Jazz on domestic and transborder routes. Air Canada continues to offer Cargo Services on its international passenger flights and also uses all freighter aircraft with flight crew provided by third parties for Canada-Europe services. On March 17, 2005, the Corporation announced that, subject to regulatory approval, it intends to expand its Cargo Services to China by using freighter aircraft, beginning in May 2005. Cargo Services offered by AC Cargo LP and Air Canada include services for high priority shipments (AC Expedair and AC Priority) and air freight services (AC Air Freight) to Air Canada destinations worldwide and Jazz destinations in North America. AC Cargo LP and Air Canada provide direct Cargo Services to approximately 225 Canadian and international destinations and have sales representatives in over 50 countries.

Air Canada's cargo terminal at Pearson is designed to ensure efficient cargo handling and to meet the needs of customers. Air Canada and AC Cargo LP together comprise the largest supplier of air cargo services to Canada

Post Corporation. This long standing cargo services relationship for carriage of mail was extended until 2007 for domestic service and until 2005 for transborder and international service.

Air Canada's freight management system, AC Lynx, offers the visibility and tools needed to track cargo on-line from initial booking to delivery. Air Canada, United Airlines and Northwest Airlines, in cooperation with Unisys, are the founding carriers of the new Cargo Portal Service. Endorsed by large freight forwarders and the Air Forwarders Association, this portal provides freight forwarders with access to a suite of services from multiple airlines, enabling them to book shipments on-line. The portal also enables its users to check schedules, capacity availability and shipment status, all from one site.

AC Online LP / Destina.ca

AC Online LP provides the internet technology platform in support of Destina.ca's on-line travel site. Destina.ca and AC Online LP contribute to the development of Air Canada's on-line distribution strategy and forms part of the airline's effort to grow its commercial websites. Destina.ca's initiatives include managing and providing operational and technical support for all of Air Canada's commercial websites, providing partners with on-line tools for direct booking, and implementing and managing future corporate direct booking tools.

In addition, Destina.ca provides access to a full complement of non-air products, including hotel accommodations, car rentals, insurance and vacation tours through the Destina.ca website, which operates as a travel agency. Customers on Destina.ca's website are also able to purchase tickets from other carriers. Destina.ca's wholly-owned subsidiary, NetTel Assistance Inc., provides customer care, fulfillment services and support for on-line bookings directly or through managed third party relationships.

Touram LP / Air Canada Vacations

Touram LP conducts business under the trade names Air Canada Vacations and Netair. Air Canada Vacations is a major Canadian tour operator, offering leisure vacation packages which include air transportation supplied by Air Canada, hotel accommodations, car rentals and cruises. Netair sells surplus seat inventory exclusively to travel agents covering air travel only. Currently, Air Canada Vacations offers vacation packages to destinations including Las Vegas, Florida, Hawaii, the Caribbean, Mexico and Costa Rica.

Groundhandling Services

ACGHS LP and Air Canada provide Groundhandling Services to numerous airlines, including major foreign airlines at Canadian and international airports. These services include passenger check-in, gate management, baggage and cargo handling and processing, as well as aircraft ramp services.

Employees

The Corporation concluded new long-term collective agreements with all union groups which expire in 2009. These collective agreements provide for a process to revise wage levels in 2006 by negotiation or, failing negotiation, by mediation or arbitration without resort to strike or lock-out.

The implementation of the unionized workforce reduction plan emanating from the Corporation's new collective agreements and the implementation of the workforce reduction plan pertaining to the Corporation's non-unionized workforce were substantially completed by the end of 2004. Further unionized workforce reductions in some areas are anticipated with the introduction of new technology and a voluntary separation plan and additional non-unionized workforce reductions in some areas are planned to occur in 2005.

A significant reduction of full-time equivalent ("FTE") employees has been achieved through the implementation of these workforce reduction plans. In the fourth quarters of 2002 and 2003, the Corporation had an average of 39,996 and 33,124 FTE employees, respectively. In the fourth quarter of 2004, the Corporation had an average of 31,991 FTE employees, a 20% decrease from the fourth quarter of 2002, as shown in the table below:

Employee Group	Union(1)	FTE Employees 4th Quarter 2004	FTE Employees 4th Quarter 2003	FTE Employees 4th Quarter 2002	Agreement(s) Expiry Date(2)
Air Canada-related					
Management & Administrative Support employees	N/A	3,390	3,614	4,723	N/A
Pilots	ACPA	2,563	2,830	3,100	2009
Flight Attendants	CUPE	5,838	5,898	6,789	2009
Customer Sales & Service Agents	CAW/IBT	4,908	4,899	6,303	2009
Ramp & Cargo Employees	IAMAW	4,736	4,769	5,438	2009
Technical Services Maintenance Employees	IAMAW/other	5,093	5,459	6,830	2009
U.K. unionized employees	AMICUS/ TGWU	729	743	850	2009
Other unionized employees	Various	608	681	820	2009
Other	N/A	331	305	362	2009
Total Air Canada-related		28,196	29,198	35,205	
Jazz and other subsidiaries	Various	3,795	3 ,926	4,791	
Total Consolidated		31,991	33,124	39,996	

(1) ACPA: Air Canada Pilots' Association; CUPE: Canadian Union of Public Employees; CAW: National Automobile, Aerospace, Transportation and General Workers Union of Canada; IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and TGWU: Transport and General Workers Union.

(2) Although the collective agreements will expire in 2009, wages may be subject to renegotiations in 2006.

RISK FACTORS

A discussion of risks affecting ACE and its business appears under the heading "Risk Factors" in the 2004 Management's Discussion and Analysis of ACE which is incorporated by reference herein. The 2004 Management's Discussion and Analysis is available on SEDAR at www.sedar.com.

MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are traded on the Toronto Stock Exchange under the trading symbols "ACE.RV" and "ACE.B", respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the Toronto Stock Exchange from their initial date of listing of October 4, 2004 for the periods indicated:

	Variable Voting Shares			Voting Shares		
	High	Low	Average Daily Trading Volume	High	Low	Average Daily Trading Volume
2004						
October(1)	$24.76	$21.60	657,488	$24.80	$21.70	267,727
November	$28.90	$23.50	658,647	$28.90	$23.41	281,319
December	$35.99	$29.60	803,108	$36.00	$29.50	266,869

(1) The numbers reported for October 2004 relate to the period from October 4, 2004 (initial listing) to October 29, 2004.

DIVIDEND RECORD

The Corporation has not paid dividends on its Voting Shares, Variable Voting Shares or Preferred Shares since they were issued as part of the Plan on September 30, 2004.

DESCRIPTION OF SHARE CAPITAL

The share capital of ACE is composed of an unlimited number of Variable Voting Shares and Voting Shares and of 12,500,000 Preferred Shares. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares, Voting Shares and Preferred Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the ACE Articles of Arrangement.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA.

The Variable Voting Shares may be held only by persons who are not Canadians (as such term is defined in the *Canada Transportation Act*) and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding (including the Preferred Shares, on an as converted basis), as a percentage of the total number of votes attaching to Voting Shares outstanding exceeds 25% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares (including the Preferred Shares, on an as converted basis) at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class (including the Preferred Shares on an as converted basis) do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of ACE and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares (including the Preferred Shares on an as converted basis) at any meeting do not exceed 25 % of the votes that may be cast at such meeting.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of ACE properly applicable to the payment of dividends, any dividends declared and payable by ACE on the Variable Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share for share basis with the Voting Shares and the Preferred Shares participating on an as converted basis. All dividends declared in any fiscal year of ACE shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, Voting Shares and the Preferred Shares participating on an as converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE ranking prior to the Variable Voting Shares, including the Preferred Shares, upon liquidation, dissolution or winding up of ACE or other distribution of ACE's assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of ACE and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of ACE or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian; or (ii) the provisions contained in the *Canada Transportation Act* relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer and the transfer agent shall deposit the resulting Voting Shares on behalf of the shareholder.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be reconverted automatically and without further act from ACE or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the ACE Articles of Arrangement.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians.

Voting Shares

Voting

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of ACE (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA) and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of ACE.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of ACE properly applicable to the payment of dividends, any dividends declared and payable by ACE on the Voting Shares and the Voting Shares shall rank equally as to

dividends on a share for share basis with the Variable Voting Shares and the Preferred Shares participating on an as converted basis and all dividends declared in any fiscal year of ACE shall be declared in equal or equivalent amounts per share on all Voting Shares, Variable Voting Shares and the Preferred Shares on an as converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of ACE ranking senior to the Voting Shares, including the Preferred Shares, upon liquidation, dissolution or winding up of ACE or other distribution of ACE's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of ACE and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the *Canada Transportation Act* are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of ACE or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Constraints on Ownership of Shares

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians.

Preferred Shares

Voting

The holders of Preferred Shares will be entitled to vote on an as converted basis with the Variable Voting Shares and the Voting Shares and to the extent that they are held by persons who are not Canadians they shall be subject to the same proportionate reduction in voting percentage as if, for voting purposes only, the Preferred Shares had been converted into Variable Voting Shares.

Participation

The holders of Preferred Shares shall participate on an as converted basis with the Variable Voting Shares and the Voting Shares with respect to all dividends, distributions, spin off, split-off, subscription rights or other offers or rights made available to holders of Variable Voting Shares and the Voting Shares and any other similar transactions.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of ACE (with each holder of the Preferred Shares being entitled to treat the occurrence of a merger, amalgamation, sale of all or substantially all of the assets of ACE or other similar transaction involving a change in control of ACE as a liquidation for these purposes), then the holders of the Preferred Shares shall be entitled to receive, prior to and in preference to the holders of Variable Voting Shares and the Voting Shares, an amount per Preferred Share equal to the Fully Accreted Value of such

Preferred Shares, determined as of the date of such event. For the purposes of the terms of the Preferred Shares, "Fully Accreted Value" means, with respect to each Preferred Share issued on September 30, 2004 to the Cerberus Affiliate, as of any date, the initial purchase price of such Preferred Share, increased at a rate of 5% per annum, compounded semi annually from the date of issuance of such Preferred Shares.

Optional Conversion

The Preferred Shares shall be convertible at the option of the holders thereof at any time into Variable Voting Shares, if held by a non Canadian, or into Voting Shares, if held by a Canadian, at a conversion rate equal to the Fully Accreted Value per Preferred Share (as of the conversion date) divided by the Conversion Price. For the purposes of the terms of the Preferred Shares, "Conversion Price" is initially equal to 135% of the initial per share value attributed to the Variable Voting Shares and Voting Shares on September 30, 2004, being $20.00. The Conversion Price shall be adjusted automatically downward on the first anniversary of the date of issuance of the Preferred Shares to 130% of the subscription price, subject to (i) adjustment as described in "Mandatory Redemption/Conversion" below and (ii) customary public company anti-dilution protection for stock splits, stock dividends, subdivisions, combinations and similar transactions. There shall be no special adjustment for below market or below Conversion Price issuances.

Mandatory Redemption/Conversion

The holders of Preferred Shares shall be required to convert the Preferred Shares into Variable Voting Shares (if the Preferred Shares are not owned and controlled by a Canadian) or Voting Shares (if the Preferred Shares are owned and controlled by a Canadian), within 10 days after the seventh anniversary of the date of issuance of the Preferred Shares (the "Initial Mandatory Conversion Date") provided, however, that if the closing price of Variable Voting Shares or Voting Shares, as the case may be, does not exceed the Fully Accreted Value of a Preferred Share on at least 30 of the 100 trading days immediately prior to the Initial Mandatory Conversion Date then the holders thereof shall not be required to convert their Preferred Shares into Variable Voting Shares or Voting Shares, as the case may be, and on the Initial Mandatory Conversion Date the then applicable Conversion Price shall automatically be reduced by 3.75%.

In the event the Preferred Shares have not been converted on or prior to the Initial Mandatory Conversion Date, on each six month anniversary of the Initial Mandatory Conversion Date (each a "Subsequent Mandatory Conversion Date") until and including the 10 year anniversary of the date of issuance of the Preferred Shares (the "Final Maturity Date"), the Preferred Shares shall be subject to mandatory conversion within 10 days of any Subsequent Mandatory Conversion Date if, and only if, the closing price of Variable Voting Shares or Voting Shares, as the case may be, exceeds the Fully Accreted Value of a Preferred Share on at least 30 of the 100 trading days immediately prior to such Subsequent Mandatory Conversion Date and, if such threshold is not met, the then applicable Conversion Price shall automatically be reduced by an additional 3.75% on each such Subsequent Mandatory Conversion Date. If the foregoing test is not met with respect to the Subsequent Mandatory Conversion Date that is the Final Maturity Date, the holders of Preferred Shares shall have the right to require ACE to redeem each of the Preferred Shares in cash on the Final Maturity Date at a per share redemption price equal to the Fully Accreted Value (as at the Final Maturity Date).

Notwithstanding the foregoing, the Preferred Shares shall not be subject to mandatory conversion as described above unless the Variable Voting Shares and Voting Shares are then listed and posted on the Toronto Stock Exchange, and a registration statement, prospectus or similar offering document permitting the distribution and sale of such Variable Voting Shares and Voting Shares throughout Canada and/or the United States of America is then effective covering all of the Variable Voting Shares and Voting Shares into which the Preferred Shares are convertible at the time of such mandatory conversion.

Mandatory Conversion

If at any time during (i) the period commencing on the date of issuance of the Preferred Shares and ending on and including the first anniversary thereof the closing price of the Variable Voting Shares or Voting Shares, as the case may be, for each of 30 consecutive trading days exceeds 200% of the then applicable Conversion Price or (ii) any period after the first anniversary of the date of issuance of the Preferred Shares the closing price of the

Variable Voting Shares or Voting Shares, as the case may be, for each of 30 consecutive trading days exceeds 175% of the then applicable Conversion Price, and, in each case, if the Variable Voting Shares or Voting Shares are then listed and posted on the Toronto Stock Exchange and a registration statement, prospectus or other similar offering document permitting the distribution and sale of such Variable Voting Shares and Voting Shares throughout Canada and/or the United States of America is then effective covering all of the Variable Voting Shares and Voting Shares into which the Preferred Shares are convertible, then ACE may require the holders of Preferred Shares to convert the Preferred Shares into Variable Voting Shares, if the Preferred Shares are not owned by a Canadian, or Voting Shares, if the Preferred Shares are owned by a Canadian.

Organic Change

With respect to any recapitalization, reorganization, reclassification, consolidation, amalgamation, arrangement, merger, sale of all or substantially all of ACE's assets to another person or other transaction which is effected in such a way that holders of Variable Voting Shares and Voting Shares are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Variable Voting Shares or Voting Shares, as the case may be (each an "Organic Change") which includes a sale of all or substantially all of ACE's assets or where ACE is not the surviving entity, the holders of the Preferred Shares shall be entitled to cause ACE to either (i) require that the surviving entity or its publicly traded parent issue to the holders of Preferred Shares in exchange for such shares, a security of the surviving or publicly traded parent entity evidenced by a written instrument substantially similar in form and substance to the Preferred Shares, including, without limitation, having the same economic rights and preferences as the Preferred Shares and having a rank senior to all capital stock of such issuing entity or (ii) make appropriate adjustments contemporaneously to the rights attached to the Preferred Shares so as to preserve in all respects the benefits conferred on the holders of the Preferred Shares by the terms of the Preferred Shares.

With respect to any reorganization, amalgamation, arrangement, merger or other similar transaction that does not constitute an Organic Change, appropriate adjustments shall contemporaneously be made to the rights (including, without limitation, the conversion right) attached to the Preferred Shares so as to preserve in all respects the benefits conferred on the holders of the Preferred Shares by the terms of the Preferred Shares.

Pre-emptive Rights

If ACE proposes to issue or sell any Variable Voting Shares or Voting Shares or other equity securities, rights, options, warrants or other convertible securities which represent rights to purchase Variable Voting Shares or Voting Shares, as the case may be, each holder of Preferred Shares shall be entitled to purchase a number of such Variable Voting Shares or Voting Shares, as the case may be, or other equity securities, rights, options, warrants or other convertible securities sufficient to allow such holder to maintain its proportionate equity ownership in ACE, on a fully diluted basis at the level of such interest immediately prior to such issuance or sale, subject to exceptions for issuances under management and employee stock incentive plans approved by the board of directors of ACE.

ESCROWED SECURITIES

The Monitor appointed by the Court in connection with the restructuring of Air Canada and certain of its subsidiaries, currently holds 5,188,985 Variable Voting Shares in escrow. These Variable Voting Shares will be released from escrow and distributed in accordance with the terms of the Plan upon the resolution of outstanding disputed claims against the Applicants and certain of its subsidiaries. If these Variable Voting Shares are ultimately distributed to Canadians upon the resolution of disputed claims, they will be converted automatically into Voting Shares in accordance with the terms of the Variable Voting Shares. Given that the identity, and therefore the status as a Canadian or non-Canadian of the creditors of Air Canada and certain subsidiaries to whom the escrowed Variable Voting Shares will be distributed upon the resolution of the outstanding disputed claims is not yet known, the Monitor is currently unable to allocate the Variable Voting Shares to be so distributed between Voting Shares (issuable to Canadians) and Variable Voting Shares (issuable to non-Canadians). The table below sets out the number of securities currently held in escrow by the Monitor and the percentage of such securities on all of the issued and outstanding Voting Shares and Variable Voting Shares.

Number of Escrowed Securities	Percentage of Outstanding Voting Shares and Variable Voting Shares
5,188,985	5.84%

DIRECTORS AND OFFICERS

Directors

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of ACE since the dates and hold the number of shares of ACE set forth opposite their respective names.

Name and Municipality of Residence	Principal Occupation	Director Since	Shares Held
Bernard Attali(4) Paris, France	Country Advisor / Texas Pacific Group France	September 30, 2004	5,000(2)
Robert E. Brown(4) Montreal, Québec	President and Chief Executive Officer CAE Inc.	September 30, 2004	10,000(1)
Carlton D. Donaway(4) Redmond, Washington	Senior Advisor – Operations Cerberus Capital Management, L.P.	December 15, 2004	Nil
Michael Green(4) Radnor, Pennsylvania	President – Operations Cerberus Capital Management, L.P.	September 30, 2004	Nil
W. Brett Ingersoll(3) New York, New York	Managing Director Cerberus Capital Management, L.P.	September 30, 2004	Nil
Pierre Marc Johnson(4) Montreal, Québec	Senior Counsel Heenan Blaikie LLP	September 30, 2004	5,000(1)
John T. McLennan(3) Mahone Bay, Nova Scotia	Corporate Director	September 30, 2004	10,000(1)
Robert A. Milton Westmount, Québec	Chairman, President and Chief Executive Officer, ACE and Chairman, Air Canada	June 29, 2004	1,552(1)
David I. Richardson(3) Grafton, Ontario	Corporate Director	September 30, 2004	10,000(1)
Marvin Yontef(4) Toronto, Ontario	Senior Partner Stikeman Elliott LLP	June 29, 2004	5,000(1)

(1) Voting Shares.
(2) Variable Voting Shares.
(3) Member of the Audit, Finance and Risk Committee.
(4) Member of the Governance and Corporate Matters Committee.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Attali was Vice Chairman of Deutsche Bank Europe Investment Banking from 1999 to 2000. Mr. Brown was Chairman of Air Canada from 2003 to 2004 and President and Chief Executive Officer of Bombardier from 1999 to 2002. Mr. Donaway was Executive Chairman of DHL Holdings USA from 2003 to 2004, Chairman, President and Chief Executive Officer of Airborne Inc. from 2002 to 2003 and President and Chief Executive Officer of ABX Air Inc. from 1992 to 2003. Mr. Ingersoll was a Partner at J.P. Morgan Partners from 1994 to 2002. Mr. McLennan was Vice Chairman and Chief Executive Officer of AT&T Canada (which was renamed Allstream Inc.) from 2000 to 2004. Mr. Richardson was Chairman, Ernst & Young Inc. and Senior Partner, Ernst & Young LLP (Canada) from 1987 to 2002.

The term of office of all of the above directors will expire at the next annual meeting of shareholders of ACE or until their successors are appointed or elected.

Officers

The name, municipality of residence and position held with ACE of each of the officers are as set forth below:

Name and Municipality of Residence	Position Held
Robert A. Milton .... Westmount, Québec	Chairman, President and Chief Executive Officer
M. Robert Peterson .... Beaconsfield, Québec	Chief Financial Officer
Duncan Dee.................................. Ottawa, Ontario	Senior Vice President, Corporate Affairs and Chief Administrative Officer
Sydney John Isaacs .... Westmount, Québec	Senior Vice President, Corporate Development and Chief Legal Officer
Jack McLean .... Winnipeg, Manitoba	Controller
Johanne Drapeau.................................. Outremont, Québec	Corporate Secretary

Each of the officers of ACE has held a position with Air Canada similar to that listed above for more than five years other than Mr. Isaacs who, prior to May 2000, was a partner of Stikeman Elliott LLP.

The name, municipality of residence and position held with Air Canada and other subsidiaries of ACE of each of the officers are set forth below:

Name and Municipality of Residence	Position Held
William G. Bredt.................................. Hudson Heights, Québec	Senior Vice President and Chief Operating Officer, Jazz
Montie R. Brewer.................................. Hudson, Québec	President and Chief Executive Officer, Air Canada
Paul E. Brotto[1] .... Pointe-Claire, Québec	Executive Vice President, Planning and Cost Management, Air Canada
Johanne Drapeau .... Outremont, Québec	Corporate Secretary, Air Canada
Rupert J. Duchesne.................................. Montreal, Québec	President and Chief Executive Officer, Aeroplan
Yves Dufresne .... Montreal, Québec	Vice President, International, Alliances and Regulatory Affairs, Air Canada
Lise Fournel.................................. Lachine, Québec	Vice President and Chief Information Officer, Air Canada and President and Chief Executive Officer, Destina.ca
Kevin C. Howlett.................................. Delta, British Columbia	Vice President, Employee Relations, Air Canada
Jack McLean .... Winnipeg, Manitoba	Controller, Air Canada
Robert A. Milton .... Westmount, Québec	Chairman, Air Canada

Name and Municipality of Residence	Position Held
Brad Moore .... Kirkland, Québec	President and Chief Executive Officer, Air Canada Groundhandling Services
Claude Morin.. Montreal, Québec	President and Chief Executive Officer, Air Canada Cargo
Allister Paterson .... Oakville, Ontario	President and Chief Operating Officer, Air Canada Vacations
M. Robert Peterson.................................. Beaconsfield, Québec	Executive Vice President and Chief Financial Officer, Air Canada
Danielle Poudrette .... Verdun, Québec	Vice President, Corporate Initiatives, Air Canada
Rob F. Reid .... Oakville, Ontario	Senior Vice President, Operations, Air Canada
Marc Rosenberg .... Toronto, Ontario	Vice President, Sales and Product Distribution, Air Canada
David J. Shapiro .... Cote Saint-Luc, Québec	Vice President and General Counsel, Air Canada
Benjamin M. Smith .... Toronto, Ontario	Vice President, Planning, Air Canada
Jon Turner .... Kirkland, Québec	Vice President, Maintenance, Air Canada
Susan Welscheid .... Town of Mount Royal, Québec	Vice President, Customer Experience – In-Flight, Air Canada

(1) Paul E. Brotto will be retiring at the end of March 2005.

As at December 31, 2004, the directors and officers of ACE as a group held 45,234 Voting Shares representing 0.51% of the outstanding Voting Shares and 5,000 Variable Voting Shares representing 0,006% of the outstanding Variable Voting Shares.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of ACE, in the last ten years, no director or executive officer of ACE is or has been a director or executive officer of any company that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days, (b) was the subject of an event that resulted, after that person ceased to be a director or executive officer, in the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to an exemption under securities legislation, for a period of more than 30 consecutive days or (c) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets except for the following:

(i) Following the acquisition of Canadian Airlines International Ltd. ("CAIL") by Air Canada in 2000, Robert A. Milton became a director of CAIL. Thereafter, CAIL restructured under the CCAA pursuant to a plan of compromise which became effective on July 5, 2000. CAIL's common shares and non-voting shares were suspended from trading by the Toronto Stock Exchange on June 27, 2000 and delisted on July 6, 2000. Robert A. Milton was President and Chief Executive Officer and a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(iii) Robert E. Brown was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003. Mr. Brown was a director of Nortel Networks Corporation when, on or about May 31, 2004, cease trade orders were issued against directors, officers and certain other current and former employee of Nortel Networks Corporation and Nortel Networks Limited (collectively, "Nortel Networks"). The management cease trade orders were imposed in response to the failure by Nortel Networks to file certain financial statements with the Canadian securities regulators;

(iv) John T. McLennan was the Chief Executive Officer of AT&T Canada when it filed for protection under the CCAA on October 15, 2002; and

(v) Mr. Robert Peterson was Executive Vice President and Chief Financial Officer of Air Canada when it filed for protection under the CCAA on April 1, 2003.

Penalties or Sanctions

To the knowledge of ACE, no director or executive officer of ACE, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of ACE, in the last ten years, no director or executive officer has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

STATEMENT OF GOVERNANCE PRACTICES

The board of directors of ACE ("Board") has adopted comprehensive governance principles, including the creation of structures and the implementation of processes that enable the Board to carry out its responsibilities effectively.

The Board has adopted a written charter whereby it assumes, among other things, the following responsibilities: (i) the stewardship of the Corporation and its business and the accountability to shareholders for the performance of the Corporation, (ii) selecting, monitoring, evaluating and compensating the Chief Executive Officer ("CEO") and other senior executives, (iii) reviewing and approving management's strategic and business plans, (iv) reviewing and approving the Corporation's financial objectives, plans and actions, (v) monitoring corporate performance against strategic business plans and (vi) ensuring ethical behaviour and compliance with laws and regulations. The charter of the Board establishes which decisions require prior Board approval, such as approval of interim and annual financial statements, strategic and business plans, raising of capital, major organizational restructurings, material acquisitions and divestitures and major corporate policies.

In the period from September 30, 2004 to December 31, 2004, the Board met six (6) times.

As new regulations come into effect such as proposed national policy 58-201 *Corporate Governance Guidelines* and proposed national instrument 58-101 *Disclosure of Corporate Governance Practices*, the Governance and Corporate Matters Committee and the Board will continue to review our corporate governance practices and make appropriate changes.

The Board has extensively reviewed the Corporation's governance practices and concludes that ACE complies with the TSX guidelines for corporate governance. The table below lists the TSX guidelines and tells you how we are meeting each one.

Guideline	Comments
1. The Board should explicitly assume responsibility for stewardship of the Corporation and specifically for:	
(a) Adoption of a strategic planning process.	In 2004, Air Canada was restructured pursuant to the Plan. The Plan was approved by Air Canada's creditors and became effective on September 30, 2004. Pursuant to the Plan, ACE became the holding company under which Air Canada and its subsidiaries are held. As part of the restructuring process, management developed a new business strategy for ACE which consists of the following: (i) a competitive cost structure; (ii) a redesigned network to maximize efficiency and leverage international growth opportunities; (iii) a customer driven revenue model for passenger services; and (iv) a new corporate structure to maximize the value of ACE's subsidiaries. Furthermore, pursuant to its charter, the Board assumes the responsibility of reviewing and approving management's strategic and business plans.
(b) Identification of the principal risks of the Corporation's business and ensuring implementation of appropriate systems to manage these risks.	The Audit, Finance and Risk Committee ("Audit Committee") assumes the responsibility of identifying and addressing material financial and other risks of the business and affairs of the Corporation and makes recommendations to the Board. The Audit Committee also reviews and discusses with management, the internal audit department and the external auditor, all major financial risk exposures and the steps management takes to monitor/control those exposures.
(c) Succession planning, including appointing, training and monitoring senior management	The Governance and Corporate Matters Committee ("Governance Committee") assumes the responsibility of reviewing on an ongoing basis management's organization plans and essential elements of succession plans for executive management so as to ensure that successors have been identified and that their career development is appropriate in the context of the challenges facing the organization. To this end, the Governance Committee meets from time to time with potential successors to all new positions and addresses the retention of key successors.
(d) Communications policy	The Corporation has a public disclosure policy. The policy addresses, *inter alia*, disclosure of information to the financial community, basic disclosure guidelines, and mandatory and voluntary disclosure of information as well as electronic communications. The Audit Committee reviews on an ongoing basis the public disclosure policy and ensures its consistency with current developments and best practices.

	The Corporation communicates regularly with the media and the financial community to discuss its results. These communications take the form of press releases, conference calls, conferences and meetings. Furthermore, the Shareholder Relations service is responsible for communicating regularly to shareholders information about the Corporation's performance. It also attends to all telephone inquiries, e-mail, fax and mailing requests from shareholders and in doing so, address in a timely fashion concerns and feedback shareholders may have.
(e) Integrity of internal control and management information systems	The Audit Committee assumes the responsibility of monitoring the performance of the internal financial and accounting controls of the Corporation. The Audit Committee also obtains from the internal audit department and the external auditor internal control recommendations and reviews the response of management to those recommendations.
2. A majority of directors should be "unrelated":	The Board has adopted the policy that it shall at all times be constituted of a majority of individuals who are independent. Based on the information received from each director and having taken into account the independence criteria set forth below, the Board concluded that all directors of the Corporation, with the exception of the Chairman, President and CEO, Robert A. Milton and Marvin Yontef, are independent and unrelated.
3. The Board has responsibility for applying the definition of "unrelated director" to each individual director and for disclosing annually the analysis of the application of the principles supporting this definition and whether the Board has a majority of unrelated directors.	The Board defines an "independent director" as a director who is: (a) not a member of management and is free from any interest and any business, family or other relationship which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising solely from holdings in the Corporation, (b) not currently, or has not been (and who does not have an immediate family member who is currently or has been) within the last three years, an officer, employee of or material service provider to the Corporation or any of its subsidiaries or affiliates; and (c) not a director, officer, employee or significant shareholder of an entity that has a material business relationship with the Corporation.
4. The Board should appoint a committee of directors composed exclusively of outside directors, a majority of whom are "unrelated" directors, with responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis.	The Governance Committee is composed exclusively of outside directors (i.e. non-management) who, based on the independence criteria set forth above, are all independent, except for Marvin Yontef. The Governance Committee assumes the responsibility of recommending the slate of candidates for directors to be nominated for election by shareholders at annual meetings.

5. The Board should implement a process, to be carried out by an appropriate committee, for assessing the effectiveness of the Board, its committees and the contribution of individual directors.	The Governance Committee assumes the responsibility of assessing the effectiveness of the Board, the Committees of the Board and the contribution of individual directors on an annual basis.
6. The Board should provide an orientation and education program for new directors.	The Governance Committee put in place an orientation and continuing education program for new recruits to the Board. More specifically, new recruits are invited to attend orientation sessions with group branch executives of the Corporation as well as with the Chairman, President and CEO to improve their understanding of the Corporation's business.
7. The Board should examine its size and undertake, where appropriate, a program to establish the size of the board which facilitates effective decision-making.	The size of the Board was examined in 2004 as part of the Plan. The Board believes that its present size is appropriate and contributes to its effectiveness. Furthermore, the Governance Committee reviews on an ongoing basis criteria regarding the composition of the Board and Committees of the Board, such as size, proportion of inside to outside directors and qualifications including relatedness and independence and makes recommendations to the Board.
8. The Board should review the adequacy and form of compensation of directors in light of the risks and responsibilities involved in being an effective director.	The Governance Committee assumes the responsibility of reviewing the adequacy and form of compensation of directors in the context of the responsibilities and risks involved in being an effective director, including making recommendations to the Board with respect to the actual remuneration (fees, retainers and currency) and benefits provided to directors.
9. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated although some board committees may include one or more inside directors.	The Audit Committee is composed entirely of outside directors who are independent. The Governance Committee is composed entirely of outside directors who are independent, except for Marvin Yontef.
10. The Board should assume responsibility for, or assign to a committee of directors responsibility for, developing the approach to corporate governance issues. This committee would, among other things, be responsible for the corporation's responses to these governance guidelines.	The Governance Committee has responsibility for the Corporation's responses to the TSX guidelines. The Governance Committee makes recommendations to the Board with respect to the monitoring, adoption and disclosure of corporate governance guidelines in effect from time to time and reviews those guidelines once a year. The Governance Committee is in the process of reviewing proposed national policy 58-201 *Effective Corporate Governance* and proposed national instrument 58-101 *Disclosure of Corporate Governance Practices* with a view to being compliant upon their adoption and continues to be proactive in implementing good corporate governance practices.
11. The Board, together with the President and the Chief Executive Officer, should develop position descriptions for the Board and for the Chief Executive Officer, including the definition of the limits to management's responsibilities. The Board should approve or develop corporate	The Board has adopted a written charter which sets out its role and responsibilities and the decisions of management which require prior Board approval. The Governance Committee is in the process of developing a position description for the Chairman, President and CEO. The Governance Committee's expectation of management is to

objectives which the President and Chief Executive Officer are responsible for meeting.

make Air Canada one of the world's leading airlines and to utilize its stand-alone businesses to their fullest potential.

The Governance Committee carries out an annual review of the CEO's performance during the year and establishes corporate objectives the CEO is responsible for meeting during the forthcoming year. Also, the Governance Committee, in consultation with the CEO, assesses the performance of management on an annual basis. The performance assessment is based *inter alia* on the accomplishment of objectives, the achievement of profit targets, the return on investment/equity, meeting consistent performance expectations, leadership and integrity.

12. The Board should implement structures and procedures which ensure that it can function independently of management.

The Governance Committee assumes the responsibility of ensuring that appropriate structures and procedures are in place so that the Board can function independently of management. The Board has concluded, for various reasons, that the fact that Robert A. Milton occupies both the office of Chairman of the Board and the office of President and CEO of ACE does not impair the ability of the Board to act independently of management. Moreover, Michael Green, an outside and independent director, has been appointed as Lead Director to the Board.

The Lead Director assumes responsibility, among other things, for: (i) ensuring that the relative responsibilities of the Board and management are clearly understood and respected, (ii) ensuring that the Board works as a cohesive team and providing the requisite leadership to achieve this, (iii) ensuring that the resources available to the Board are adequate to support its work, and (iv) adopting procedures to ensure that the Board can conduct its work effectively and efficiently.

On the occasion of each Board meeting, non-management directors meet under the chairmanship of the Lead Director.

13. The audit committee should be composed of only unrelated directors. The Board should adopt a charter for the audit committee, which sets out the roles and responsibilities of the committee. The audit committee should have direct communication channels with the internal and the external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.

The Audit Committee is composed entirely of independent directors. The Board has adopted a charter for the Audit Committee. The charter sets out the roles and responsibilities of the Committee, including reviewing annual and other financial information, the services performed by the external auditors, the accounting systems and internal controls, establishing policies and procedures regarding accounting practices and reporting to the Board. The charter contains a requirement for financial literacy and the Committee has determined that all the members are financially literate and have accounting or related financial expertise.

The Audit Committee is specifically mandated to oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls and to provide independent communication between the Board and the external auditor.

14. The Board should implement a system to enable an individual director to engage an outside advisor at the Corporation's expense in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the Board.	The charter of each of the Audit Committee and the Governance Committee provides that such Committees may retain independent advisors at the expense of the Corporation. These advisors are authorized to carry out investigations into any matter within the scope of the respective Committee's responsibility.

STOCK OPTION PLAN

As part of the implementation of the consolidated plan of reorganization, compromise and arrangement of Air Canada, a Stock Option Plan ("Option Plan") of ACE was put in place. The persons eligible to receive options ("Eligible Optionees") are the directors or officers and may include senior managers and other employees, as the Governance Committee may determine, who are in key positions of the Corporation. This Option Plan is designed to create a direct link between executives' and shareholders' interests, since the full value of the Option Plan can only be obtained when the Corporation's stock appreciates over a number of years.

Options granted are based on the executive's position and annual compensation, taking into account the market price of the shares and each executive's potential contribution to ACE's success in a given year. The maximum number of shares that can be issued under the Option Plan is 5,052,545 or approximately 5% of the fully diluted equity of ACE. The aggregate number of shares reserved for issuance at any time to any one Eligible Optionee shall not exceed 5% of the outstanding Voting Shares and Variable Voting Shares. The aggregate number of shares issued to any one insider within any one-year period shall not exceed 5% of the outstanding Voting Shares and Variable Voting Shares. The Option Plan provides that the options will have an exercise price of not less than 100% of the market price of the underlying shares at the time of grant. The Option Plan provides that the term of the options shall not be more than ten (10) years from the date of grant. Options granted under the Plan may not be assigned or transferred.

The Board may, subject to regulatory approval, amend the Option Plan at any time provided that no such amendment may materially affect any rights previously granted to a participant under the Option Plan without the consent of such participant. If a participant's employment is being terminated for "gross misconduct", unexercised options shall terminate forthwith. If a participant's employment is terminated without cause, such participant may exercise its vested options within thirty (30) days after a notice of termination of employment has been given.

To provide a meaningful incentive, and to promote retention among the executive team, options were granted in October 2004 on an accelerated three-year basis. The Governance Committee granted options to purchase a total of 3,027,509 shares of ACE at a price of $20.00 per share representing approximately 3% of the fully diluted equity of ACE. No other options will be granted until 2007 for existing employees, unless otherwise approved by the Governance Committee.

Vesting of options granted in October 2004 under the Option Plan is as follows: (i) 50% of granted options will vest in four equal instalments on October 3, 2005, 2006, 2007 and 2008 and (ii) the remaining 50% of granted options will also vest as per this schedule, provided the Corporation meets the financial thresholds linked to the business plan for those years (if targets are not met, options will be forfeited unless otherwise approved by the Governance Committee). The terms of the grant made in October 2004 provide that vested options can be exercised over a period of seven (7) years from the date of the grant at an exercise price of 100% of the market price of the underlying shares at the time of the grant.

AUDIT COMMITTEE

Audit Committee Charter

The charter of the Audit, Finance and Risk Committee ("Audit Committee") is attached as Appendix A to this Annual Information Form.

Composition of Audit Committee

The Audit Committee of ACE consists of W. Brett Ingersoll, John T. McLennan and David I. Richardson. Each member of the Audit Committee is independent and financially literate as defined under Multilateral Instrument 52-110 – *Audit Committees.*

Relevant Education and Experience of Audit Committee Members

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

(i) W. Brett Ingersoll is the Managing Director of Cerberus Capital Management, L.P. and a member of its Investment Committee focusing on investment opportunities in mature businesses in need of operational improvement. Mr. Ingersoll is a director of OpenNetwork Technologies and various private companies. Prior to joining Cerberus, Mr. Ingersoll was a partner at JP Morgan Partners (formerly Chase Capital Partners) where he focused primarily on private equity and restructuring situations in various industries. Mr. Ingersoll holds a BA in economics from Brigham Young University and a MBA from Harvard University.

(ii) John T. McLennan is a director of Hummingbird Ltd., E-Cruiter, Architel Systems Corporation, Mobile Data Solutions, Inc., Leitch Technology, TeleTech Holdings Inc., Amdocs Ltd. And Prior Data. Mr. McLennan was Vice-Chairman and Chief Executive Officer of Allstream from 2000 to 2004. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. Mr. McLennan was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel AT&T Wireless and Executive Vice President of Mitel Communications Inc. Mr. McLennan holds a BSc and a MSc in Industrial Management from Clarkson University.

(iii) David I. Richardson is the former Chairman of Ernst & Young Inc. (Canada). Mr. Richardson joined its predecessor Clarkson, Gordon & Co. in 1963 and was appointed President of The Clarkson Company Limited in 1982. Mr. Richardson was also a member of the Management and Executive Committees of Ernst & Young, national managing partner of the firm's Corporate Finance practice and the senior partner in the Corporate Recovery and Restructuring practice until retirement from the partnership in 2002. Mr. Richardson is a Director and Chairman of the Audit Committee of Husky Injection Holding Systems Ltd. Mr. Richardson holds a B.Comm from the University of Toronto and is a Chartered Accountant since 1966. Mr. Richardson is also a Fellow of the Institute of Chartered Accountants of Ontario, a member of the Insolvency Institute of Canada and a Trustee in Bankruptcy.

Pre-approval Policies and Procedures

The Audit Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard, the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period.

The Audit Committee will also require and review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor

in order to evaluate the objectivity and independence of the external auditor. The Audit Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2004 and December 31, 2003 to PricewaterhouseCoopers LLP and its affiliates are $4,137,228 and $2,256,074, respectively. Fees payable to PricewaterhouseCoopers LLP and its affiliates in 2004 and 2003 are detailed below.

	Year ended December 31, 2004	**Year ended December 31, 2003**
Audit fees	$3,356,851	$1,714,074
Audit-related fees	$321,269	$507,000
Tax fees	$459,108	$35,000
All other fees	Nil	Nil
	$4,137,228	$2,256,074

The nature of each category of fees is described below.

Audit fees

Audit fees were paid for professional services rendered for the audit of the Corporation's annual financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-related fees

Audit-related fees were paid for professional services related to pension plan audits, specified procedures reports and other items related to the audit.

Tax fees

Tax fees were paid for professional services rendered with respect to commodity and income taxes.

GOVERNANCE AND CORPORATE MATTERS COMMITTEE

The charter of the Governance and Corporate Matters Committee is attached as Appendix B to this Annual Information Form.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On September 30, 2004, as part of Air Canada's restructuring process, the Cerberus Affiliate invested $250 million in ACE in consideration for the issuance of 12,500,000 Preferred Shares of ACE. The Cerberus Affiliate is an affiliate of Cerberus Capital Management, L.P. Michael Green, Carlton D. Donaway and W. Brett Ingersoll, all directors of ACE, are respectively President-Operations, Senior Advisor-Operations and Managing Director of Cerberus Capital Management, L.P.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and registrar for the Variable Voting Shares and Voting Shares of ACE is CIBC Mellon Trust Company at its principal transfer offices in Montreal, Toronto, Vancouver, Calgary, Winnipeg and Halifax.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which ACE is a party appears under the heading "Contingencies, Guarantees and Indemnities" in Note 24 to the consolidated audited annual financial statements of ACE for the year ended December 31, 2004. ACE's audited annual financial statements for the year ended December 31, 2004 are available on SEDAR at www.sedar.com.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2004 or before such year but which are still in effect are the following:

(i) Standby Purchase Agreement between Deutsche Bank Securities Inc. and Air Canada dated as of October 29, 2003, as amended and restated by the amended and restated standby purchase agreement, dated as of April 29, 2004; and

(ii) Investment Agreement between Cerberus ACE Investment, LLC and Air Canada dated June 23, 2004.

Please refer to the section titled "Three-year Summary: Evolution of Business" for the particulars of such contracts.

EXPERTS

The auditors of ACE are PricewaterhouseCoopers LLP.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, indebtedness of officers, executive stock options and interests of management and others in material transactions, where applicable, is contained in Air Canada's annual filing for the financial year ended December 31, 2002 (form 28 under the *Securities Act* (Ontario)) filed with the Securities Commissions on July 2, 2003. Financial information, including consolidated comparative audited financial statements, are provided in the 2004 Management Discussion & Analysis/2004 Financial Statements and Notes of ACE. The above information and additional information relating to ACE are available on SEDAR at www.sedar.com.

The following documents can be obtained upon request from the Corporate Secretary of ACE, 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2 :

(i) this Annual Information Form, together with any document incorporated herein by reference;

(ii) the 2004 Management Discussion & Analysis of Results / 2004 Financial Statements and Notes of ACE and any interim financial statements filed with Securities Commissions subsequent to the audited financial statements for ACE's most recently completed financial year;

(iii) the Corporation's annual filing for the financial year ended December 31, 2002 (form 28 under the *Securities Act* (Ontario)) filed with the Securities Commissions on July 2, 2003; and

(iv) any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus pursuant to which securities of ACE are in the course of a distribution.

Except when securities of ACE are in the course of distribution pursuant to a short form prospectus or a preliminary short form prospectus, ACE may require the payment of a reasonable charge from persons, other than security holders of ACE, requesting copies of these documents.

APPENDIX A

CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE

OF THE BOARD OF DIRECTORS OF ACE AVIATION HOLDINGS INC.

(the "Corporation")

1. Structure, Procedure, Qualifications

The Audit, Finance and Risk Committee (the "Audit Committee") of the Corporation shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors. The members of the Audit Committee shall have no relationships with management, the Corporation and its related entities that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit Committee member shall not receive, other than for service on the Board or the Audit Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related parties or subsidiaries. The members of the Audit Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit Committee and in particular each member of the Audit Committee shall be "financially literate" and at least one member shall be a "financial expert" as defined by relevant securities legislation or regulations.

A quorum of the Audit Committee shall be a majority of the members, and a majority of the members present shall be required to pass a resolution of the Audit Committee. The Audit Committee shall be responsible to the Board of Directors of the Corporation. The Chairman and the members of the Audit Committee shall be appointed annually by the Board.

2. Objectives

(a) The objectives of the Audit Committee are as follows:

- (i) To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.
- (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
- (iii) To assist the Board of Directors in its oversight of the independence, qualifications and appointment of the external auditor.
- (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
- (v) To provide independent communication between the Board and the internal auditor and the external auditor.
- (vi) To facilitate in-depth and candid discussions between the Audit Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

3. Duties

To achieve its objectives, the Audit Committee shall:

(a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analyses ("MD&As") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews will include:

  (i) discussions with management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;

  (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;

  (iii) a review of significant adjustments arising from an audit;

  (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements;

  (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;

  (vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;

  (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;

  (viii) a review to ascertain that various covenants are complied with; and

  (ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.

(b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.

(c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.

(d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or

other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.

(e) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.

(f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Audit Committee. The Corporation shall ensure that funding is available to the Audit Committee for payment of compensation to the external auditor.

(g) Review

(i) and approve, or delegate to a member of the Audit Committee the responsibility to review and approve and subsequently report to the Audit Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period; and

(ii) implement from time to time a process in connection with non-audit services performed by the external auditor.

(h) Review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once a year the Audit Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.

(i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.

(j) At least once each year:

(i) Meet privately with management to assess the performance of the external auditor.

(ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

(k) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.

(l) Regarding the services provided by the internal audit department, the Audit Committee will:

(i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;

(ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;

(iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;

(iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;

(v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and

(vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.

(m) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.

(n) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.

(o) Review policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Audit Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Audit Committee.

(p) Review policies for approval of senior management expenses.

(q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.

(r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.

(s) Review and approve all related party transactions as such term is defined from time to time in Policy Statement Q-27 of the Quebec Securities Commission and Rule 61-501 issued by the Ontario Securities Commission, as may be amended from time to time.

(t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.

(u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall ensure that funding is available to the Audit Committee in respect of the aforementioned activities.

(v) Report regularly to the Board in writing on the activities, findings and conclusions of the Audit Committee.

(w) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.

(x) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.

(y) Perform such other functions as may be delegated from time to time by the Board.

(z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.

(aa) Set policies for the hiring of employees or former employees of the Corporation's external auditors.

4. Other

(a) Public Disclosure

(i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices;

(ii) Where practicable, management will review with the Audit Committee or the Chairman of the Audit Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting by the Corporation which are expected by management to be material in relation to the market price of any of the Corporation's securities.

(b) Risk Identification and Management

The Audit Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board of Directors of the Corporation. The Audit Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Audit Committee shall be entitled, from time to time, to retain experts and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation ob business reputation.

(c) Contingent Liabilities

The Audit Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of these duties, the Audit Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Audit Committee shall make recommendations, from time to time, to the Board of Directors of the Corporation on these matters.

(d) Corporate Authorizations Policies

(i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;

(ii) Periodically review the any administrative resolutions adopted from time to time pursuant to the Corporation's By-laws pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;

(iii) Review, monitor and approve the Corporate Donations Policy and any changes thereto and the annual Corporate Donations Budget; and

(iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(e) Performance to Budget, Actuarial Valuation

(i) Review actual financial performance compared to budget;

(ii) Review and approve in conjunction with Air Canada's Pension Investment Policy Committee the actuarial valuation and related assumptions and recommend to the Board the funding contribution to the Corporation's pension funds ;

(iii) Review and approve in conjunction with Air Canada's Pension Investment Policy Committee the appointment of the actuary ;

(iv) Monitor that all contributions, deductions, withholdings, remittances or other payments of any kind under applicable law have been made;

(f) Meetings

(i) The Audit Committee shall meet at least quarterly at the call of the Chairman of the Audit Committee, any other member of the Audit Committee or the external auditors.

(ii) An "in-camera" session of the members of the Committee shall be held as part of each meeting of the Committee.

(g) Responsibilities

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board of Directors' responsibility to ensure the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Audit Committee. Even though the Audit Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor.

November 12, 2004

APPENDIX B

CHARTER OF THE

GOVERNANCE AND
CORPORATE MATTERS COMMITTEE
(the "Committee)

OF THE BOARD OF DIRECTORS

OF ACE AVIATION HOLDINGS INC.
(the "Corporation")

1. Purpose

The purpose of the Committee is to assist the Board of Directors (the "Board") in fulfilling its responsibilities by ensuring that (i) corporate governance guidelines are adopted, disclosed and applied including director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, director orientation and continuing education, management succession and annual performance evaluation of the Board; and (ii) an appropriate oversight is exercised in the field of human resources and compensation as well as succession planning including appointing, training and monitoring senior management, compensation of officers, organization plans, compensation philosophy, as well as such other matters delegated to the Committee by the Board.

2. Composition and Qualification

(a) The Committee shall be comprised of five or more directors as determined by the Board, all of whom shall comply with eligibility and qualification standards under applicable legislation in effect from time to time.

(b) The members of the Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair and a Secretary are appointed by the Board, the members of the Committee may designate a Chair and a Secretary by a majority vote of all the Committee members.

(c) The Committee may invite, from time to time, such person as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Committee. However, any such persons invited may not vote at any meeting of the Committee.

(d) The Board, may, at any time, remove any member of the Committee at its discretion and may accept the resignation of any member of the Committee. Vacancies at any time occurring on the Committee shall be filled by the Board.

3. Meetings and Procedure

(a) The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Such meetings shall be held by telephone or by any other mean which enables all participants to communicate with each other simultaneously.

(b) The Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.

(c) A quorum for the transaction of business at a Committee meeting shall be a majority of the Committee members. All decisions and recommendations made by the Committee shall be made by a majority vote of the members present at the meeting.

(d) For all decisions on issues for which the applicable legislation in effect from time to time requires the members participating in the discussions related to, and voting on, such issues to be independent (as defined under applicable legislation in effect from time to time), those members who are not independent will not participate in the discussions nor vote on such issues. In such event, the decisions made by the Committee on those matters shall be made by majority vote of the independent members present at the meeting.

(e) An "*in-camera*" session of the members of the Committee shall be held as part of each meeting of the Committee.

(f) Notice of meetings shall be given by letter, facsimile, email or telephone not less than 24 hours before the time fixed for the meeting. Notice of meetings shall state the date, the place and the hour at which such meetings will be held and need not be given for each meeting. Members may waive notice of any meeting.

(g) The minutes of the Committee meetings shall accurately record the significant discussions of, and decisions made by, the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to Committee members as well as to all the directors of the Corporation, with copies to the Chief Executive Officer of the Corporation.

(h) The Committee shall report to the Board on all proceedings and deliberations of the Committee at the first subsequent meeting of the Board, and at such other times and in such manner as the Board may require or as the Committee in its discretion may consider advisable.

(i) To carry out its duties, the Committee will have access to independent advisors at the expense of the Corporation as well as having access to data and performance information relative to the Corporation. The Committee shall be free to choose advisors as it deems appropriate. These advisors will be given access to management and the work carried out by management for presentation to the Committee.

4. Responsibilities and Duties

To fulfill its responsibilities and duties, the Committee shall:

(I) Related to Corporate Governance:

(a) Review criteria regarding the composition of the Board and committees of the Board, such as size, proportion of inside to outside directors and qualifications including relatedness and independence and make recommendations to the Board.

(b) Review criteria relating to tenure as a director, such as retirement age, limitations on the number of times a director may stand for re-election, and the continuation of directors in an honorary or similar capacity.

(c) Review criteria for retention of directors unrelated to age or tenure, such as attendance at Board and committee meetings, health or the assumption of responsibilities which are incompatible with effective Board membership and assess the effectiveness of the Board as a whole, the committees of the Board, the contribution of individual directors, and assessment of directors on an ongoing basis.

(d) Review on a regular basis, the adequacy and form of compensation of directors in the context of the responsibilities and risks involved in being an effective director, including making recommendations to the Board with respect to the actual remuneration (fees, retainers and currency) and benefits provided to directors.

(e) Review and develop position descriptions for the Board, the Chairman and for the Chief Executive Officer including the definition of the limits to management's responsibilities.

(f) Ensure appropriate structures and procedures are in place so that the Board can function independently of management. To this end, arrange, at scheduled meetings of the Board, for the external directors to meet for a period of time without management present. In the absence of a non-executive Chairman, such meetings will be chaired by the lead director or the Chairman of the Corporate Governance and Strategic Issues Committee.

(g) As an integral element of the process for appointing new directors, put in place an orientation and continuing education program for new recruits to the Board.

(h) Ensure corporate compliance with applicable legislation including directors and officers compliance.

(i) Review proposed amendments to the Corporation's by-laws before making recommendations to the Board.

(j) Periodically review and approve the "Code of Corporate Policy and Guidelines on Business Conduct".

(k) Make recommendations to the Board as deemed appropriate with respect to the monitoring, adoption and disclosure of corporate governance guidelines in effect from time to time and review those guidelines once a year.

(l) Develop and recommend to the Board standards to be applied in making determinations as to the presence or absence of material relationships between the Corporation and a director.

(II) Related to the Board

(a) Review criteria regarding personal qualifications for Board membership, such as background, experience, technical skills, affiliations and personal characteristics and make recommendations to the Board.

(b) Review qualifications of candidates for Board membership.

(c) Recommend the slate of candidates for directors to be nominated for election by shareholders at annual meetings of shareholders.

(d) Determine candidates to fill vacancies on the Board occurring between annual meetings of shareholders.

(e) Recommend to the Board the removal of a director in exceptional circumstances.

(III) Related to Committees of the Board

(a) Recommend to the Board the types, charters and composition of the Board committees.

(b) Recommend to the Board the nominees to the chairmanship of the Board committees including periodic rotation of committee assignments and memberships.

(c) Review and make recommendations to the Board, as deemed appropriate, with respect to time of service of members on committees, meetings procedures, quorum and notice requirements, records and minutes, resignations and vacancies on committees.

(IV) Related to Subsidiaries of the Corporation and Other Companies

(a) Review qualifications of non-management nominees of the Corporation to sit on the boards of subsidiaries of the Corporation or of companies in which the Corporation has an interest.

(b) Review and make recommendations to the Board relative to non-management nominees of the Corporation to the boards of subsidiaries of the Corporation or of companies in which the Corporation has an interest.

(V) Related to Compensation

(a) Develop compensation philosophy and guidelines.

(b) Review and approve on behalf of the Board the compensation paid to officers of the Corporation. For purposes hereof, "compensation" includes *inter alia*: cash salary, incentive bonus, share purchase and share option awards, pension benefits, non-cash benefits (including insurance, discounts, and other perquisites) and shall also include any employment or termination contract.

(c) Review and approve corporate goals, objectives and business performance measures relevant to the compensation of the Chief Executive Officer, evaluate the Chief Executive Officer's performance in light of those goals, objectives and business performance measures, and set the Chief Executive Officer's compensation level based on this evaluation. Business performance measures shall include *inter alia* financial statement and market based measures, tested relative to plan, the previous year and competitors' organizations.

(d) Review and make recommendations to the Board with respect to incentive compensation plans and equity based plans and any amendments thereto.

(e) Review and approve, on behalf of the Board, salary ranges for all positions including Executive Management.

(f) Administer the stock option plan of the Corporation and to generally oversee the administration thereof.

(g) Review the annual report of senior management compensation for inclusion in the Corporation's Management Proxy Circular, in accordance with applicable rules and regulations.

(VI) Related to Organization Plans, Succession Plans and Training

(a) Review on an ongoing basis management's organization plans and essential elements of succession plans for Executive Management so as to ensure that successors have been identified and that their career development is appropriate in the context of the challenges facing the organization. To this end, the Committee should meet regularly with potential successors to all key positions and the Committee will address the retention of key successors. The Committee shall assure as well that the Chief Executive Officer and other top executive officers retire in accordance with the needs of the Corporation in order to facilitate leadership transition and the retention of the talent necessary to move into key positions on a timely basis.

(b) Review regularly and approve on behalf of the Board the following:

- training, monitoring and development of senior officers;
- senior management organizations and reporting structure; and
- contingency plans in the event of the disability of key executives.

(VII) Other

(a) Review such other corporate governance, nominating, compensation and strategic planning committee functions customarily carried out by such committees as well as such other matters which may be referred to it by the Board from time to time.

(VIII) Self Assessment

(a) The Committee shall review annually this Charter and any of the Committee's mandate and other documents used by the Committee in fulfilling its responsibilities

(b) The Committee shall assess annually the performance of the Committee and each of its members on an annual basis in accordance with performance assessment guidelines formulated by the Committee.

November 12, 2004