ACE AVIATION

Quarter 3 2006
Management's Discussion and Analysis of Results of Operations and Financial Condition

November 9, 2006

TABLE OF CONTENTS

1. PREFACE 1
2. OVERVIEW AND GENERAL BUSINESS SUMMARY 2
   2.1 Proposed plan of arrangement and initial distribution of units of Aeroplan Income Fund 2
   2.2 Initial public offering of Air Canada shares 2
   2.3 Aeroplan 3
   2.4 Air Canada revenue model 3
   2.5 Fuel risk management 4
   2.6 Status of wage review with unions 4
   2.7 Sale of US Airways shares 5
   2.8 US Department of Justice Cargo pricing investigation 5
3. QUARTER AND YEAR-TO-DATE RESULTS 6
   3.1 Comparison of consolidated quarter and year-to-date results 6
   3.2 Comparison of segment quarter and year-to-date results 9
   3.3 Air Canada Services 11
   3.4 Aeroplan 16
   3.5 Jazz 17
   3.6 ACTS 18
   3.7 Corporate Items and Eliminations 19
4. FINANCIAL AND CAPITAL MANAGEMENT 20
   4.1 Financial position 20
   4.2 Liquidity and working capital 20
   4.3 Share information 21
   4.4 Cash flows from operations 21
   4.5 Cash flows from financing activities 21
   4.6 Cash flows used for investing activities 22
5. QUARTERLY FINANCIAL DATA 23
6. CONTROLS AND PROCEDURES 24
7. MATERIAL CHANGES 24
8. RISK FACTORS 24
9. NON-GAAP FINANCIAL MEASURES 25
10. GLOSSARY 28

1. PREFACE

ACE Aviation Holdings Inc. ("ACE") is the parent holding company of various transportation and other service companies and partnerships, which are operated through the following four reportable segments: Air Canada Services, Aeroplan Limited Partnership ("Aeroplan"), Jazz Air LP ("Jazz") and ACTS Limited Partnership ("ACTS"). As at September 30, 2006, ACE holds directly or indirectly a 100 percent ownership interest in the entities included in the Air Canada Services segment, a 75.3 percent ownership interest in Aeroplan, a 79.7 percent ownership interest in Jazz and a 100 percent ownership interest in ACTS.

The Air Canada Services segment includes the following principal operating companies and partnerships: Air Canada, ACGHS Limited Partnership ("Air Canada Ground Handling"), Touram Limited Partnership ("Air Canada Vacations") and AC Cargo Limited Partnership ("Air Canada Cargo"). The Air Canada Services segment is comprised of the entities previously included within the Transportation Services segment with the exception of the activities of the ACE stand-alone entity and certain consolidation adjustments which are now included within Corporate Items and Eliminations ("CIE"). The comparative segment disclosures have been restated to reflect the current reportable segment structure.

References to the "Corporation" in this Management's Discussion and Analysis ("MD&A") refers to, as the context may require, ACE and its subsidiaries collectively, ACE and one or more of its subsidiaries, one or more of ACE's subsidiaries, or ACE itself.

Except as otherwise noted, this MD&A is current as of November 9, 2006 and should be read in conjunction with ACE's interim unaudited consolidated financial statements for Quarter 3 2006 and ACE's audited annual consolidated financial statements and annual MD&A for 2005. The interim unaudited consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada and are based on accounting policies consistent with those disclosed in Note 2 to the 2005 Annual Consolidated Financial Statements of ACE, with the exception of the policy on stock-based compensation. Refer to Note 1 to ACE's Quarter 3 2006 Interim Unaudited Consolidated Financial Statements for information related to the adoption of EIC-162 Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date. All amounts are stated in Canadian dollars, unless otherwise indicated. Certain percentage amounts calculated herein are based on the amounts rounded to millions. For the reportable segments, the sum of quarterly financial results may not equal the year-to-date results due to rounding. For a glossary of terms and measures used in this MD&A, refer to section 10.

For further information on ACE's public disclosure file, including ACE's Annual Information Form, consult SEDAR at www.sedar.com and EDGAR at www.sec.gov/edgar.shtml

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to, comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in the "Risk Factors" section of ACE's 2005 MD&A dated February 9, 2006. The forward-looking statements contained in this MD&A represent ACE's expectations as of November 9, 2006, and are subject to change after such date. However, ACE disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

2. OVERVIEW AND GENERAL BUSINESS SUMMARY

A detailed description of ACE's strategy and objectives is provided in ACE's 2005 MD&A and an update on the progress made in the first two quarters of 2006 is disclosed in ACE's Quarter 1 2006 and Quarter 2 2006 MD&As. The following provides an overview and general business summary and identifies progress made towards meeting ACE business objectives and strategies.

2.1 Proposed plan of arrangement and initial distribution of units of Aeroplan Income Fund

At a special meeting of shareholders held on October 5, 2006, the shareholders of the Corporation approved a statutory plan of arrangement pursuant to the Canada Business Corporations Act. On October 6, 2006, the Quebec Superior Court issued a final order approving the statutory plan of arrangement which became effective October 10, 2006. The arrangement grants authority to the board of directors of ACE to make from time to time one or more special distributions to ACE shareholders in an aggregate amount of up to $2 billion by way of reduction of the stated capital of the Class A variable voting shares, Class B voting shares and the preferred shares of ACE.

ACE intends, subject to the Air Canada Pilots Association ("ACPA") claim below, to proceed with an initial distribution of units of Aeroplan Income Fund under the plan of arrangement representing a portion of its interest in Aeroplan. The terms of the distribution, including the number of Aeroplan units to be distributed per Class A variable voting share, Class B share and preferred share (on an as-converted basis) of ACE, the record date to determine the ACE shareholders eligible to participate in such distribution and the anticipated payment date will be announced by subsequent news release.

ACPA has commenced proceedings before the Ontario Superior Court of Justice against Air Canada, ACE and the members of the board of directors of Air Canada alleging that certain past and future actions are oppressive to them. A variety of remedies have been sought against the parties seeking, among other things, limits on corporate distributions including those contemplated under the ACE plan of arrangement described above and restrictions on Air Canada's ability to effect certain corporate reorganization transactions. The claim was served on October 4, 2006. Management is of the view that the claim is without merit. The interim injunction hearing is scheduled to be heard in late December 2006.

2.2 Initial public offering of Air Canada shares

On October 16, 2006, ACE and Air Canada filed a preliminary prospectus with all securities regulatory authorities throughout Canada for an initial public offering of shares in Air Canada. The proposed offering, of approximately $400 million, consists of $200 million variable voting shares and voting shares being issued and sold by Air Canada and $200 million in a secondary offering of variable voting shares and voting shares being sold by ACE, prior to any exercise of the 15 percent over-allotment option.

A corporate restructuring is planned to occur in connection with the initial public offering of common shares of Air Canada. Under the planned corporate restructuring, Air Canada Cargo and Air Canada Ground Handling are expected to become subsidiaries of Air Canada and ACE will transfer a 51 percent ownership in Air Canada Vacations to Air Canada. Jazz, Aeroplan and ACTS will remain subsidiaries of ACE. Preferred units in ACTS, which are held by Air Canada, will be purchased by ACE for proceeds of $672 million.

Upon completion of the offering of Air Canada shares and satisfaction of certain customary conditions, the revolving credit facility of Air Canada, as described in Note 5 to ACE's Quarter 3 2006 Interim Unaudited Consolidated Financial Statements, will be amended and restated. The amended agreement will establish a $400 million senior secured revolving credit facility with a three-year term. In accordance with the provisions of the facility, the term may be consensually extended for additional one-year periods on each anniversary of the closing of the offering. The amended credit facility will contain customary representations and warranties and will be subject to customary terms and conditions (including negative covenants, financial covenants and events of default).

2.3 Aeroplan

In 2001, Air Canada established Aeroplan Limited Partnership as a limited partnership wholly-owned by Air Canada. The Aeroplan loyalty program was previously a division of Air Canada. Under the Commercial Participation and Services Agreement ("CPSA') between Air Canada and Aeroplan, Air Canada retained responsibility for the estimated miles to be redeemed from accumulations of miles up to December 31, 2001. Aeroplan assumed responsibility for all miles issued beginning January 1, 2002. On December 31, 2001, there were 171 billion miles outstanding of which, after considering breakage, management estimated that 103 billion miles would be redeemed.

With the assistance of independent actuaries, management of Air Canada and Aeroplan re-estimated the number of miles expected to be redeemed from accumulations up to December 31, 2001. Management now expects that 112 billion miles will be redeemed compared to the original estimate of 103 billion. Pursuant to the terms of the CPSA, dated June 9, 2004, as amended, management of Air Canada and Aeroplan agreed to further amend the terms of the CPSA. Effective October 13, 2006, by amendment, Air Canada has assumed responsibility for the redemption of up to 112 billion miles and, as a result, has recorded a special charge of $102 million against operating revenues in Quarter 3 2006 and increased Aeroplan deferred revenues. This charge is referred to as the "special charge for Aeroplan miles" in this MD&A. This amendment to the CPSA represents full and final settlement between the parties in connection with Air Canada's obligations for the redemption of pre-2002 miles. Aeroplan is responsible for any redemption of miles in excess of the re-estimated 112 billion miles.

The Aeroplan Income Fund makes monthly distributions to its unit holders. On October 16, 2006, trustees of Aeroplan Income Fund approved an increase in distributions to unit holders from $0.0625 to $0.0700 per unit, commencing with the distribution to be declared for the month of December 2006, following a decision to increase distributions to its limited partners by Aeroplan's board of directors in the same amount.

On October 16, 2006, in order to improve reward travel choices and provide greater flexibility to make travel arrangements, Aeroplan introduced ClassicPlus Flight Rewards which offer Aeroplan members unrestricted access to available seat inventory across the entire Air Canada and Air Canada Jazz networks in both Economy and Executive Class and may be booked until two hours prior to a flight's departure should seats remain available. Concurrently, Aeroplan also announced the implementation of two program changes related to mileage expiry and mileage accumulation which will become effective January 1, 2007 and July 1, 2007, respectively. The changes have been designed to encourage members' active participation in the program through accumulation and redemption.

2.4 Air Canada revenue model

Throughout the quarter, Air Canada continued to leverage the programs that make up its revenue model. Significant system development and business readiness planning was conducted to expand the "a la carte" shopping opportunities for customers purchasing North America fares. Expanded a la carte options have been released in the fourth quarter.

In addition, a major milestone was achieved during the quarter with the launch of the first long-haul international Flight Pass. The London Flight Pass was launched in September, enabling frequent travelers to the United Kingdom to purchase six one-way flights at one time. Additionally, an extension of the Flight Pass to include a subscription pricing model occurred in October 2006. Corporate users may now pay on a recurring periodic basis for the Flight Pass. On October 19, the new North America Unlimited Pass was launched in Canada, combining fixed-monthly subscription pricing with unlimited travel in a choice of nine zones throughout North America.

As at November 9, 2006, Air Canada has completed the aircraft interior refurbishment of its eighth Airbus A320 and its first Boeing 767-300 aircraft.

2.5 Fuel risk management

In order to manage the airline's exposure to the volatility of jet fuel prices, the Corporation has hedged a portion of its anticipated jet fuel requirements using mostly swap and collar option structures.

As at September 30, 2006, Air Canada had 58 percent of its remaining fuel requirement for 2006 hedged at prices that can fluctuate between an average of US$87 to US$91 per barrel for its jet fuel contracts and an average of US$75 to US$86 per barrel for its heating oil-based contracts. For 2007, Air Canada had hedged 24 percent of its 2007 requirements at prices that can fluctuate between an average of US$74 to US$85 per barrel for its heating oil-based contracts and an average of US$58 to US$69 per barrel for its WTI crude oil-based contracts. Since September 30, 2006, Air Canada has entered into new hedging positions, using collar option structures, which has added 9 percent coverage to the first quarter of 2007 increasing the total hedged volume for 2007 to 26 percent.

In Quarter 3, 2006, the Corporation recorded net hedging losses of $10 million in fuel expense on settled hedging instruments and a net loss of $2 million in non-operating expense for certain derivative instruments which do not qualify for hedge accounting. On a year-to-date basis, the Corporation has recorded net hedging losses of $11 million in fuel expense and a net loss of $1 million in non-operating expense.

2.6 Status of wage review with unions

A majority of the Corporation's employees are unionized and subject to collective agreements in force until June 2009. These collective agreements provide for wage reviews that are expected to be completed by the end of 2006.

To date, Air Canada has completed negotiation, mediation and binding arbitration with the following unions:

- The Canadian Auto Workers Union ("CAW"), which represents customer sales and services agents and crew schedulers. The arbitrator awarded wage increases of 1 percent effective June 2006, 1.75 percent effective June 2007 and 1.75 percent effective June 2008.
- AMICUS, which represents United Kingdom-based employees. The arbitrator awarded wage increases of 2 percent effective April 2006 and no increases for the following years.
- The International Association of Machinist and Aerospace Workers ("IAMAW"), which represents technical, maintenance and finance employees. The arbitrator awarded wage increases of 1 percent effective July 2006, 0.5 percent effective January 2007, 1.75 percent effective July 2007 and 1.75 percent effective July 2008.
- The International Brotherhood of Teamsters ("IBT"), which represents the United States-based employees of Air Canada at 11 stations, for a total of approximately 800 active employees. The arbitrator awarded wage increases of 1.6 percent effective September 2006, 1 percent effective March 2007, 1.6 percent effective September 2007, 1 percent effective March 2008, 1.6 percent effective September 2008 and 1 percent effective March 2009.
- An agreement was reached on October 28, 2006 between Air Canada and the Canadian Air Line Dispatchers Association ("CALDA"), the union representing Air Canada's dispatchers, whereby the rates of pay for the dispatchers have increased retroactively by 1.9 percent effective July 2006, and will increase by 1.8 percent effective July 2007 and 1.6 percent effective July 2008.
- The Air Canada Pilots Association ("ACPA"), which represents Air Canada's pilots. The arbitrator awarded wage increases of 2 percent effective July 1, 2006, 1.75 percent effective July 1, 2007 and 1.75 percent effective July 1, 2008.

The wage re-opener negotiations with the Canadian Union of Public Employees ("CUPE"), which represents Air Canada's flight attendants, have moved to mediation which is expected to occur in November 2006.

Jazz has completed negotiation, mediation and arbitration with the CAW, which represents its technical services, crew scheduling and customer service agents. The arbitrator awarded wage increases of 1 percent effective July 2006, 1.75 percent effective July 2007 and 1.75 percent effective July 2008. Jazz has also completed negotiation, mediation and arbitration with Teamsters Canada, the union representing Jazz's flight attendants. Aside from modest fixed adjustments to the scales applicable to employees hired after July 31, 2003, the following awards were granted to Teamsters-represented employees: a 1 percent wage increase effective June 1, 2006, 1.75 percent effective June 1, 2007 and 1.75 percent effective June 1, 2008. The award also resolved the outstanding issue of profit sharing for the flight attendants, who are now eligible to receive the full profit sharing payout. Negotiations with Jazz's dispatchers, who are represented by CALDA, are continuing.

2.7 Sale of US Airways shares

In Quarter 3 2005, the Corporation made an investment of US$75 million in US Airways Group, Inc. ("US Airways") for 5 million shares. On April 10, 2006, the Corporation disposed of 1.75 million shares of its holdings in US Airways to PAR Investment Partners LP. The proceeds from the sale transaction amounted to $78 million (US$68 million). ACE recorded a pre-tax gain of $46 million ($38 million after tax) in Quarter 2 2006 as a result of this transaction.

Over the period from June 7, 2006 to July 6, 2006, the Corporation disposed of 2.75 million shares of its holdings in US Airways through a series of transactions on the open stock market at an average price of over US$50 per share.

- Prior to June 30, 2006, 1.5 million shares were sold at an average price of over US$47 per share for net proceeds of $80 million (US$72 million). The Corporation recorded a pre-tax gain of $54 million ($45 million after tax) in Quarter 2 2006 as a result of these transactions.
- In July, the Corporation sold an additional 1.25 million shares at an average price of over US$53 per share for net proceeds of $74 million (US$66 million). The Corporation has recorded a pre-tax gain of $52 million ($43 million after tax) in Quarter 3 2006 as a result of these transactions.

The aggregate net proceeds to date from the sale of 4.5 million shares of US Airways amount to $232 million (US$206 million).

As of November 9, 2006, ACE continues to hold 0.5 million shares in US Airways with a market value of US$25 million.

2.8 US Department of Justice Cargo pricing investigation

The European Commission, the United States Department of Justice (the "US DoJ") and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including certain fuel surcharges levied by a number of airlines and other cargo operators. The US DoJ has sought information from Air Canada as part of its investigation. Air Canada is cooperating fully with this investigation.

Air Canada is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations. It is not possible at this time to predict, with any degree of certainty, the outcome of these proceedings.

It is Air Canada's policy to conduct its business in full compliance with all applicable competition laws.

3. QUARTER AND YEAR-TO-DATE RESULTS

3.1 Comparison of consolidated quarter and year-to-date results

The following table compares the consolidated results of operations of ACE for Quarter 3 2006 and the nine months ended September 30, 2006 to the corresponding periods in 2005.

($ millions, except per share amounts)	Quarter 3		Change		YTD		Change	
	2006	**2005**	**$**	**%**	**2006**	**2005**	**$**	**%**
Operating revenues								
Passenger	$ 2,564	$ 2,461	$ 103	4	$ 6,873	$ 6,300	$ 573	9
Cargo	157	162	(5)	(3)	460	444	16	4
Other	226	210	16	8	780	724	56	8
	2,947	**2,833**	**114**	**4**	**8,113**	**7,468**	**645**	**9**
Special charge for Aeroplan miles	(102)	-	(102)	n/a	(102)	-	(102)	n/a
	2,845	**2,833**	**12**	**0**	**8,011**	**7,468**	**543**	**7**
Operating expenses								
Salaries, wages and benefits	641	635	6	1	1,919	1,870	49	3
Aircraft fuel	762	675	87	13	1,962	1,620	342	21
Aircraft rent	108	112	(4)	(4)	334	300	34	11
Airport and navigation fees	275	259	16	6	750	702	48	7
Aircraft maintenance, materials and supplies	100	80	20	25	347	263	84	32
Communications and information technology	70	75	(5)	(7)	217	230	(13)	(6)
Food, beverages and supplies	93	94	(1)	(1)	255	253	2	1
Depreciation, amortization and obsolescence	145	118	27	23	419	357	62	17
Commissions	61	68	(7)	(10)	188	206	(18)	(9)
Special charge for labour restructuring	-	-	-	-	33	-	33	n/a
Other	387	396	(9)	(2)	1,265	1,178	87	7
	2,642	**2,512**	**130**	**5**	**7,689**	**6,979**	**710**	**10**
Operating income	**203**	**321**	**(118)**		**322**	**489**	**(167)**	
Non-operating income (expense)								
Interest income	33	20	13		84	47	37	
Interest expense	(94)	(76)	(18)		(273)	(228)	(45)	
Interest capitalized	18	2	16		40	8	32	
Gain on sale of US Airways shares	52	-	52		152	-	152	
Gain (loss) on sale of assets and provisions on assets	(4)	2	(6)		-	2	(2)	
Dilution gain	-	-	-		220	190	30	
Other	(17)	14	(31)		(14)	(16)	2	
	(12)	**(38)**	**26**		**209**	**3**	**206**	
Income before the following items:	**191**	**283**	**(92)**		**531**	**492**	**39**	
Non-controlling interest	(19)	(9)	(10)		(53)	(16)	(37)	
Foreign exchange gain (loss)	(3)	125	(128)		117	57	60	
Provision for income taxes	(66)	(128)	62		(138)	(170)	32	
Income for the period	**$ 103**	**$ 271**	**$ (168)**		**$ 457**	**$ 363**	**$ 94**	
Earnings per share								
- Basic	**$ 1.01**	**$ 2.67**	**$ (1.66)**		**$ 4.49**	**$ 3.75**	**$ 0.74**	
- Diluted	**$ 0.95**	**$ 2.33**	**$ (1.38)**		**$ 4.11**	**$ 3.39**	**$ 0.72**	
EBITDAR (1)	**456**	**551**	**(95)**		**1,075**	**1,146**	**(71)**	
EBITDAR excluding special charges (1)	**558**	**551**	**7**		**1,210**	**1,146**	**64**	

(1) Refer to "Non-GAAP Financial Measures" on page 25 of this MD&A for a reconciliation of EBITDAR.

ACE reported operating income of $203 million in Quarter 3 2006, a decrease of $118 million from the operating income of $321 million recorded in Quarter 3 2005. For the first nine months of 2006, ACE recorded operating income of $322 million, a decrease of $167 million from the same period in 2005.

Included in Quarter 3 2006 was a special charge of $102 million recorded in operating revenues in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles as discussed in section 2.3 of this MD&A. A workforce reduction plan was announced in February 2006 whereby non-unionized employee levels are in the process of being reduced by 20 percent. This program is expected to be substantially completed by the end of 2006. As at November 9, 2006, approximately 66 percent of the planned reductions had been completed. A special charge of $33 million was recorded in Quarter 1 2006 relating to this program of which $28 million was reflected in the Air Canada Services segment and $5 million was reflected in the ACTS segment.

Excluding the special charge for Aeroplan miles, for Quarter 3 2006, operating income decreased $16 million from Quarter 3 2005. Excluding the special charge for Aeroplan miles and the special charge for labour restructuring of $33 million recorded in Quarter 1 2006, for the first nine months of 2006, operating income decreased $32 million from the same period in 2005.

On a consolidated basis, for Quarter 3 2006, EBITDAR decreased $95 million over Quarter 3 2005. Excluding the special charge for Aeroplan miles, EBITDAR improved $7 million over Quarter 3, 2005. For Quarter 3 2006, the Aeroplan and Jazz segments achieved EBITDAR improvements over Quarter 3 2005 of $13 million and $15 million, respectively, which were more than offset by EBITDAR shortfalls in the Air Canada Services and ACTS segments of $134 million and $10 million, respectively. Excluding the special charge for Aeroplan miles, EBITDAR for the Air Canada Services segment decreased $32 million over Quarter 3 2005.

On a consolidated basis, for the first nine months of 2006, EBITDAR decreased $71 million over the same period in 2005. Excluding the special charge for Aeroplan miles and the special charge for labour restructuring, EBITDAR increased $64 million. For the first nine months of 2006, the Aeroplan and Jazz segments achieved EBITDAR improvements of $38 million and $66 million, respectively, which were more than offset by EBITDAR shortfalls in the Air Canada Services and ACTS segments of $115 million and $70 million, respectively. Excluding the special charge for Aeroplan miles and the special charge for labour restructuring of $28 million recorded in Quarter 1 2006, EBITDAR for the Air Canada Services segment improved $15 million on a year-to-date basis. Excluding the special charge for labour restructuring of $5 million recorded in Quarter 1 2006, EBITDAR for the ACTS segment decreased $65 million over the first nine months of 2005.

Consolidated operating revenues rose $12 million over Quarter 3 2005 and $543 million or 7 percent over the first nine months of 2005. Excluding the special charge for Aeroplan miles, consolidated operating revenues rose $114 million or 4 percent over Quarter 3 2005 and $645 million or 9 percent over the first nine months of 2005, mainly due to an increase in passenger revenues reflecting system yield and traffic improvements due to a stronger market demand. System passenger revenues in Quarter 3 2006 and the first nine months of 2006 were up $103 million or 4 percent and $573 million or 9 percent, respectively. The revenue growth in Quarter 3 2006 was achieved despite the negative impact of a stronger Canadian dollar on international, US Transborder and domestic revenues, the impact of the terrorist threat in the United Kingdom (UK) and resultant additional security measures and the temporary removal of content by one of the airline's distribution providers in response to distribution model changes. Cargo revenues for Quarter 3 2006 decreased $5 million or 3 percent from Quarter 3 2005 mostly due to reduced Pacific revenues. System cargo traffic declined 4 percent and cargo yield for Quarter 3 2006 improved 1 per cent. Other revenues increased $16 million or 8 percent in Quarter 3 2006 and $56 million or 8 percent in the first nine months of 2006, in large part due to higher Aeroplan redemption and third party maintenance revenues. The increase in revenues on a year-to-date basis from these two sources was partially offset by reduced revenues from Air Canada Vacations mainly in Quarter 1 2006 due to lower passenger volumes.

For Quarter 3, 2006 and for the first nine months of 2006, consolidated operating expenses increased $130 million or 5 percent and $710 million or 10 percent, respectively, over the same periods in 2005. Unit cost, as measured by operating expense per ASM, increased 2 percent from Quarter 3 2005 and 6 percent from the first nine months of 2005. Excluding fuel expense, unit cost was down 1 percent in the quarter. On a year-to-date basis, excluding fuel expense and the special charge for labour restructuring of $33 million recorded in Quarter 1 2006, unit cost increased 2 percent over the corresponding period in 2005.

Non-operating expense amounted to $12 million in Quarter 3 2006 compared to non-operating expense of $38 million in Quarter 3 2005. For the first nine months of 2006, non-operating income amounted to $209 million compared to non-operating income of $3 million. For Quarter 3 2006 and for the first nine months of 2006, net interest expense decreased $11 million and $24 million, respectively, from the same periods in 2005. The increase in interest expense, largely driven by the financing of additional aircraft, was more than offset by interest capitalized and an increase in interest income due to higher cash balances and higher average interest rates. Included in year-to-date 2006 results was the pre-tax gain of $152 million relating to the sale of shares of US Airways and a dilution gain of $220 million as a result of ACE's initial public offering ("IPO") of Jazz Income Fund. Included in year-to-date 2005 results was a dilution gain of $190 million as a result of ACE's IPO of Aeroplan Income of Fund, pre-tax charges of $29 million related to the extinguishment of a credit facility with GE and a gain of $17 million related to interest rate swaps covering two Boeing 767 aircraft leases.

Losses from the revaluation of foreign currency monetary items amounted to $3 million in Quarter 3 2006. This compared to foreign exchange gains on foreign currency monetary items of $125 million in Quarter 3 2005. For the first nine months of 2006, gains from the revaluation of foreign currency monetary items amounted to $117 million, attributable to a stronger Canadian dollar at September 30, 2006 compared to December 31, 2005. This compared to foreign exchange gains of $57 million in the first nine months of 2005.

Net income for Quarter 3 2006 amounted to $103 million or $0.95 per diluted share compared to $271 million or $2.33 per diluted share in Quarter 3 2005. On a year-to-date basis, net income increased $94 million or $0.72 per diluted share over the same period in 2005.

3.2 Comparison of segment quarter and year-to-date results

The following tables compare segment results for Quarter 3 2006 and the nine months ended September 30, 2006 to the corresponding periods in 2005. Refer to Note 11 of ACE's Quarter 3 2006 Interim Unaudited Consolidated Financial Statements for additional information on segments.

VARIANCE	Quarter 3 2006 versus Quarter 3 2005					
($ millions)	Air Canada Services	Aeroplan	Jazz	ACTS	CIE	ACE Consolidated
Passenger revenue	$ 97	$ -	$ -	$ -	$ 6	$ 103
Cargo revenue	(5)	-	-	-	-	(5)
Other revenue	(4)	23	-	1	(4)	16
External revenue	88	23	-	1	2	114
Inter-segment revenue	9	(1)	95	2	(105)	-
	97	22	95	3	(103)	114
Special charge for Aeroplan miles	(102)	-	-	-	-	(102)
Total revenues	**(5)**	**22**	**95**	**3**	**(103)**	**12**
Salaries, wages, and benefits	(9)	3	12	(2)	2	6
Aircraft fuel	87	-	33	-	(33)	87
Ownership (DAR)[(1)]	8	1	14	-	-	23
Airport user fees	17	-	14	-	(15)	16
Aircraft maintenance materials & supplies	17	-	12	7	(16)	20
Commissions	(7)	-	-	-	-	(7)
Capacity purchase fees paid to Jazz[(2)]	43	-	-	-	(43)	-
Other operating expenses	(19)	6	9	8	(19)	(15)
Total operating expenses	**137**	**10**	**94**	**13**	**(124)**	**130**
Operating income (loss)	**(142)**	**12**	**1**	**(10)**	**21**	**(118)**
Net interest expense	8	1	4	(1)	(1)	11
Gain on sale of US Airways shares	-	-	-	-	52	52
Gain (loss) on disposal	2	-	(3)	-	(5)	(6)
Other non-operating income (expense)	(31)	1	-	-	(1)	(31)
Total non-operating income (expense)	**(21)**	**2**	**1**	**(1)**	**45**	**26**
Income before the following items:	**(163)**	**14**	**2**	**(11)**	**66**	**(92)**
Non-controlling interest	2	-	-	-	(12)	(10)
Foreign exchange gain (loss)	(129)	-	-	-	1	(128)
Recovery of (provision for) income taxes	94	-	-	-	(32)	62
Segment income (loss)	**$ (196)**	**$ 14**	**$ 2**	**$ (11)**	**$ 23**	**$ (168)**
Operating margin pp change[(3)]	**(5.1)**	**5.1**	**(3.3)**	**(5.1)**	**(3.9)**	**(4.2)**
Operating margin pp change, excluding the special charge for Aeroplan miles	**(1.7)**	**5.1**	**(3.3)**	**(5.1)**	**(3.9)**	**(1.0)**
EBITDAR / EBITDA[(4)]	**(134)**	**13**	**15**	**(10)**	**21**	**(95)**
EBITDAR / EBITDA excluding the special charge for Aeroplan miles [(4)]	**(32)**	**13**	**15**	**(10)**	**21**	**7**

(1) DAR refers to the combination of Aircraft rent and Depreciation, amortization and obsolescence.
(2) Excludes pass-through costs reimbursed to Jazz, as defined in the Jazz CPA, such as fuel, airport and navigation fees and certain other expenses.
(3) Includes the impact of the special charge for Aeroplan miles of $102 million.
(4) Refer to "Non-GAAP Financial Measures" on page 25 of this MD&A for reconciliations of EBITDAR and EBITDA to operating income (loss). For Aeroplan and ACTS, EBITDA is used and is comparable to EBITDAR as these two segments do not incur aircraft rent expense.

VARIANCE	Nine months ended September 30, 2006 versus nine months ended September 30, 2005					
($ millions)	Air Canada Services	Aeroplan	Jazz	ACTS	CIE	ACE Consolidated
Passenger revenue	$ 568	$ -	$ (1)	$ -	$ 6	$ 573
Cargo revenue	16	-	-	-	-	16
Other revenue	(6)	76	2	16	(32)	56
External revenue	578	76	1	16	(26)	645
Inter-segment revenue	8	(1)	309	49	(365)	-
	586	75	310	65	(391)	645
Special charge for Aeroplan miles	(102)	-	-	-	-	(102)
Total revenues	**484**	**75**	**310**	**65**	**(391)**	**543**
Salaries, wages, and benefits	(21)	6	39	23	2	49
Aircraft fuel	341	-	101	1	(101)	342
Ownership (DAR)(1)	48	7	50	(1)	(8)	96
Airport user fees	48	-	45	-	(45)	48
Aircraft maintenance materials & supplies	50	-	21	60	(47)	84
Commissions	(18)	-	-	-	-	(18)
Capacity purchase fees paid to Jazz(2)	148	-	-	-	(148)	-
Special charges for labour restructuring	28	-	-	5	-	33
Other operating expenses	23	31	38	46	(62)	76
Total operating expenses	**647**	**44**	**294**	**134**	**(409)**	**710**
Operating income (loss)	**(163)**	**31**	**16**	**(69)**	**18**	**(167)**
Net interest expense	27	4	9	(2)	(14)	24
Gain on sale of US Airways shares	-	-	-	-	152	152
Gain (loss) on disposal	5	-	(3)	-	(4)	(2)
Dilution gain	-	-	-	-	30	30
Other non-operating income (expense)	(33)	(1)	-	1	35	2
Total non-operating income (expense)	**(1)**	**3**	**6**	**(1)**	**199**	**206**
Income before the following items:	**(164)**	**34**	**22**	**(70)**	**217**	**39**
Non-controlling interest	2	-	-	-	(39)	(37)
Foreign exchange gain (loss)	61	-	-	(1)	-	60
Recovery of (provision for) income taxes	56	-	-	-	(24)	32
Segment income (loss)	**$ (45)**	**$ 34**	**$ 22**	**$ (71)**	**$ 154**	**$ 94**
Operating margin pp change(3)	**(2.4)**	**3.5**	**(2.4)**	**(12.0)**	**(1.1)**	**(2.5)**
Operating margin pp change, excluding special charges	**(1.1)**	**3.5**	**(2.4)**	**(12.0)**	**(1.1)**	**(1.3)**
EBITDAR / EBITDA(4)	**(115)**	**38**	**66**	**(70)**	**10**	**(71)**
EBITDAR / EBITDA excluding special charges(4)	**15**	**38**	**66**	**(65)**	**10**	**64**

(1) DAR refers to the combination of Aircraft rent and Depreciation, amortization and obsolescence.
(2) Excludes pass-through costs reimbursed to Jazz, such as fuel, navigation, landing and terminal fees.
(3) Includes the impact of the special charges for Aeroplan miles and labour restructuring.
(4) Refer to "Non-GAAP Financial Measures" on page 25 of this MD&A for reconciliations of EBITDAR and EBITDA to operating income (loss). For Aeroplan and ACTS, EBITDA is used and is comparable to EBITDAR as these two segments do not incur aircraft rent expense.

3.3 Air Canada Services

The Air Canada Services segment reported operating income of $130 million in Quarter 3 2006, a decrease of $142 million from the operating income of $272 million recorded in Quarter 3 2005. Excluding the special charge for Aeroplan miles, operating income decreased $40 million. EBITDAR decreased $134 million over Quarter 3, 2005. Excluding the special charge for Aeroplan miles, EBITDAR decreased $32 million.

For the first nine months of 2006, the Air Canada Services segment reported operating income of $119 million, a decrease of $163 million from the operating income of $282 million recorded in 2005. Excluding the special charge for Aeroplan miles and the special charge for labour restructuring, operating income decreased by $33 million over the same period in 2005. EBITDAR decreased $115 million on a year-to-date basis. Excluding the special charge for Aeroplan miles and the special charge for labour restructuring, EBITDAR improved $15 million.

Passenger revenues

System passenger revenues in Quarter 3 2006 and the first nine months of 2006 were up $97 million or 4 percent and $568 million or 9 percent, respectively, reflecting system yield and traffic improvements due to stronger market demand. The system yield improvement of 1 percent in Quarter 3 2006 and 4 percent in the first nine months of 2006 was principally due to fuel-related fare increases and increased fuel surcharges to offset higher fuel costs. The impact of the fuel-related price increases was partially offset by the negative effect of a stronger Canadian dollar on international, US Transborder and domestic revenues, the impact of the August 10, 2006 terrorist threat in London, UK, and resultant additional security measures and the temporary removal of content by one of the airline's distribution providers in response to distribution model changes. For Quarter 3 2006 and the first nine months of 2006, traffic grew 3 percent and 5 percent, respectively, on a capacity increase of 3 percent over Quarter 3 2005 and 4 percent over the first nine months of 2005. This resulted in a passenger load factor decrease of 0.6 percentage points in the quarter and an improvement of 0.5 percentage points on a year-to-date basis. RASM was essentially unchanged compared to Quarter 3 2005 as the improvement in yield was offset by the decline in passenger load factor, while the 5 percent year-to-date increase in RASM was due to both the growth in system yield and the improvement in passenger load factor in the period.

The tables below describe percentage changes in passenger revenues, capacity, traffic, passenger load factor, yield and RASM for Quarter 3 2006 and the first nine months of 2006 to the corresponding periods in 2005.

Quarter 3 2006 versus Quarter 3 2005	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	RASM % Change
Canada	4	4	2	(1.4)	2	0
US Transborder	14	20	19	(0.7)	(4)	(5)
Atlantic	(3)	(6)	(6)	(0.5)	3	2
Pacific	2	4	5	1.3	(3)	(2)
Other	10	5	6	0.7	2	3
System	**4**	**3**	**3**	**(0.6)**	**1**	**0**

YTD 2006 versus YTD 2005	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	RASM % Change
Canada	8	4	3	(1.1)	5	3
US Transborder	19	12	16	2.6	3	6
Atlantic	5	2	2	0.6	2	3
Pacific	3	0	2	1.8	1	3
Other	10	1	3	1.3	7	9
System	**9**	**4**	**5**	**0.5**	**4**	**5**

Domestic passenger revenues increased $42 million or 4 percent over Quarter 3 2005 due to increased traffic and a yield improvement of 2 percent resulting from increased fare levels to offset higher fuel costs. Traffic grew 2 percent on a capacity increase of 4 percent resulting in a decline in passenger load factor of 1.4

percentage points. Capacity increases were largely on transcontinental services, within western Canada and to Atlantic Canada. Domestic RASM was essentially unchanged compared to Quarter 3 2005 as the yield improvement was offset by the decrease in passenger load factor. For the first nine months of 2006, domestic passenger revenues increased $207 million or 8 percent due to increased fare levels to offset higher fuel costs over the same period in 2005. The suspension of Canjet's domestic operations on September 10, 2006 had only a marginal impact on Air Canada's domestic traffic in Quarter 3 2006. Increased demand for the higher-priced Tango Plus product was also a factor in the passenger revenue growth over the first nine months of 2005. On a year-to-date basis, RASM rose 3 percent as a result of a 5 percent yield improvement partly offset by a decrease of 1.1 percentage points in passenger load factor.

US Transborder passenger revenues rose $57 million or 14 percent compared to Quarter 3 2005 and $227 million or 19 percent in the first nine months of 2006 due to an increase in traffic of 19 percent and 16 percent, respectively. This revenue growth was mainly due to increased capacity and a stronger market demand and, in the first half of 2006, a yield improvement of 6 percent over the same period in 2005. Yield decreased 4 percent in Quarter 3 2006, reflecting a growth over 2005 in long-haul flying to key leisure destinations attracting additional traffic with lower average yields which resulted in an overall lower weighted average yield per revenue passenger mile. The average stage length increased approximately 7 percent over both Quarter 3 2005 and the first nine months of 2005. The impact of a stronger Canadian dollar versus the US dollar for sales denominated in US dollars was also a factor in the yield decrease in the quarter. In Quarter 3 2006, these factors more than offset the impact of the fuel-related increases over 2005. On a year-to-date basis, yield improved 3 percent reflecting fuel-related increases partly offset by the adverse impact of a stronger Canadian dollar and the impact of additional long-haul flying in more leisure-oriented markets. The Quarter 1 2006 yield growth of 11 percent reflected an aggressive pricing environment in Quarter 1 2005 which had resulted in a very high level of price discounting. The growth in passenger traffic in both the quarter and for the first nine months of 2006 was largely as a result of increased capacity on routes to Las Vegas, San Francisco and Los Angeles and the addition of the Toronto-San Diego route in June 2006. As a result of the decrease in yield and passenger load factor, RASM was down 5 percent from Quarter 3 2005. On a year-to-date basis, RASM increased 6 percent over the same period in 2005 as a result of the yield growth and higher passenger load factor.

Atlantic passenger revenues in Quarter 3 2006 decreased $21 million or 3 percent, with a 6 percent reduction in capacity, primarily on UK services, in line with a 6 percent reduction in passenger traffic. Yield per passenger mile improved by 3 percent compared to Quarter 3 2005. Air Canada's Atlantic service was impacted by the August 10, 2006 terrorist threat in the UK and the new security measures introduced subsequently across the entire network. For weeks following the event, UK routes and other major European gateways experienced changes to booking patterns, traffic flows to other connecting hubs and an increased number of close-in passenger cancellations. Incremental competitive capacity to the North Atlantic was also on the rise in Quarter 3 2006. Air Canada's Atlantic network changed compared to the previous year with the conversion of its service to Rome from summer to year-round service in the latter part of 2005. In addition, in early September, Air Canada modified its Halifax-St. John's-London route to operate non-stop between Halifax and London. On year-to-date basis, yield improved 2 percent over 2005, and traffic improved by 2 percent on 2 percent capacity growth. The favourable impact of increased fuel surcharges to offset higher fuel costs was partly offset by the adverse effect of a stronger Canadian dollar.

Pacific passenger revenues in Quarter 3 2006 and in the first nine months of 2006 were up $7 million or 2 percent and $20 million or 3 percent, respectively. For Quarter 3 2006, the increase in Pacific passenger revenues was largely due to increased fuel surcharges to offset higher fuel costs and an increase in traffic partly offset by a 3 percent decrease in yield as the impact of increased fuel surcharges to offset higher fuel costs was more than offset by the negative effect of a stronger Canadian dollar on foreign currency denominated revenues. In Quarter 3 2006, a 15 percent traffic growth was achieved in the combined China (including Hong Kong) and Korea markets. Japan yield performance was substantially impacted by currency, given the significant volume of sales generated in Japan for inbound traffic to Canada. Improved premium traffic did contribute to offsetting the negative impacts of currency. From a traffic perspective, both Tokyo and Osaka outperformed Quarter 3 2005. Service to Nagoya did not operate in the summer of 2006. For Quarter 3 2006, RASM decreased 2 percent as result of the 3 percent decrease in yield partly offset by a 1.3 percentage points improvement in passenger load factor. For the first nine months of 2006, the passenger revenue increase was largely due to increased fuel surcharges to offset higher fuel costs, growth in traffic and a yield improvement. The impact of increased fuel surcharges was partly offset by the negative effect of a stronger Canadian dollar on foreign currency denominated revenues. On a year-to-date basis, the traffic growth was largely offset by the impact of the revenue changes resulting from the change in the India service in November 2005 from Toronto-

Delhi to Toronto-Zurich-Delhi. The year-earlier service had all its revenue reflected in the Pacific route grouping, whereas now only Zurich-Delhi revenue is reflected in the Pacific. On a year-to-date basis, RASM increased 3 percent due to both the 1.8 percentage point improvement in passenger load factor and the 1 percent growth in yield.

Other passenger revenues (comprised of South Pacific, Caribbean, Mexico and South America) were up $12 million or 10 percent over Quarter 3 2005 and $46 million or 10 percent over the first nine months of 2005 mainly due to increased fuel surcharges to offset higher fuel costs, and traffic growth. Traffic growth was primarily reflected in the Mexico market and, to a lesser extent, in the Caribbean market as a result of increased capacity. For Quarter 3 2006 and the first nine months of 2006, RASM increased 3 percent and 9 percent, respectively, mainly due to a yield increase and to an improvement in passenger load factor.

Cargo revenues

Cargo revenues for Quarter 3 2006 decreased $5 million or 3 percent from Quarter 3 2005 mostly due to reduced Pacific revenues. System traffic declined 4 percent and cargo yield for Quarter 3 2006 improved 1 per cent from Quarter 3 2005. Revenue from freighter operations in Quarter 3 2006 was essentially unchanged from Quarter 3 2005. Atlantic freighter revenues increased on expanded operations, while Pacific freighter revenues declined due to a reduction in flying to Shanghai in the quarter.

For the first nine months of 2006, cargo revenues increased $16 million or 4 percent due to a growth in cargo traffic of 7 percent partly offset by a yield deterioration of 3 percent. For the first nine months of 2006, freighter revenues increased $32 million over the same period in 2005. The revenue increase was mainly in the Pacific market during the first six months where additional MD-11 freighter capacity was deployed in 2006.

Other revenues

For Quarter 3 2006 and the first nine months of 2006, other revenues increased $5 million and $2 million, respectively, over the same periods in 2005 and included higher flight cancellation and change fees and other miscellaneous revenue increases. On a year-to-date basis, the revenue increases were largely offset by lower revenues from Air Canada Vacations mainly in Quarter 1 2006 due to lower passenger volumes.

Also included in operating revenues in Quarter 3 2006 was the special charge for Aeroplan miles of $102 million in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles as discussed in section 2.3 of this MD&A.

Operating expenses

Operating expenses in Quarter 3 2006 and in the first nine months of 2006 rose $137 million or 6 percent and $647 million or 9 percent, respectively. This increase in operating expenses included higher fuel expenses of $87 million or 13 percent in the quarter and $341 million or 21 percent on a year-to-date basis. Higher CPA fees payable to Jazz and increased pass-through costs were also important factors in the increase over both Quarter 3 2005 and the first nine months of 2005.

A special charge for labour restructuring of $28 million was recorded in the Air Canada Services segment in Quarter 1 2006.

Unit cost, as measured by operating expense per ASM, increased 2 percent from Quarter 3 2005 and 5 percent from the first nine months of 2005. Excluding fuel expense, unit cost was down 1 percent in the quarter. On a year-to-date basis, excluding fuel expense and the special charge for labour restructuring, unit cost increased 1 percent over the corresponding period in 2005. The following table compares Air Canada Services' operating expenses per ASM for Quarter 3 2006 and the first nine months of 2006 to Air Canada Services' operating expenses per ASM to the corresponding periods in 2005.

($ cents per ASM)	Quarter 3		Change		YTD		Change	
	2006	2005	$	%	2006	2005	$	%
Salary and wages	2.09	2.19	(0.10)	(5)	2.28	2.40	(0.12)	(5)
Benefits	0.54	0.59	(0.05)	(8)	0.66	0.70	(0.04)	(6)
Ownership (DAR) (1)	1.13	1.13	-	-	1.28	1.22	0.06	5
Airport and navigation fees	1.57	1.53	0.04	3	1.61	1.56	0.05	3
Aircraft maintenance, materials and supplies	0.95	0.88	0.07	8	1.21	1.14	0.07	6
Food, beverages and supplies	0.52	0.54	(0.02)	(4)	0.53	0.55	(0.02)	(4)
Commissions	0.35	0.40	(0.05)	(13)	0.40	0.46	(0.06)	(13)
Capacity purchase fees paid to Jazz	1.29	1.08	0.21	19	1.38	1.11	0.27	24
Other	3.46	3.41	0.05	1	4.04	3.82	0.22	6
Operating expense, excluding fuel expense and the special charge for labour restructuring (2)	**10.61**	**10.67**	**(0.06)**	**(1)**	**12.01**	**11.85**	**0.16**	**1**
Aircraft fuel	4.35	3.98	0.37	9	4.20	3.60	0.60	17
Special charge for labour restructuring	-	-	-	n/a	0.06	-	0.06	n/a
Total operating expense	**14.96**	**14.65**	**0.31**	**2**	**16.27**	**15.45**	**0.82**	**5**

(1) DAR refers to the combination of Aircraft rent and Depreciation, amortization and obsolescence.
(2) Refer to "Non-GAAP Financial Measures" on page 25 of this MD&A for additional information.

Salaries and wages expense totaled $367 million in Quarter 3 2006, a decrease of $4 million or 1 percent from Quarter 3 2005, mainly reflecting a decrease of 755 average full-time equivalent ("FTE") employees or 3 percent partly offset by higher average salaries. On a year-to-date basis, salaries and wages expense decreased $16 million or 1 percent over the same period in 2005, mainly due to a 1 percent decrease in average FTE employees.

Employee benefits expense decreased $5 million or 5 percent in Quarter 3 2006 mainly due to a decline in post-employment benefits partly offset by higher pension expense which reflected a lower discount rate applied to pension obligations. For the first nine months of 2006, employee benefits expense decreased $5 million or 2 percent mainly due to a decline in post-employment benefits partly offset by higher pension expense and a growth in health benefits for active employees.

Fuel expense was up $87 million or 13 percent in Quarter 3 2006 bringing the year-to-date increase over 2005 to $341 million or 21 percent, driven by high fuel prices. In Quarter 3 2006, the average base fuel price increase of $124 million, the volume-related increase of $21 million and a fuel hedging loss of $10 million were partially offset by the favourable impact of a stronger Canadian dollar versus the US dollar of $68 million. In the first nine months of 2006, the average base fuel price increase of $406 million, the volume-related increase of $77 million and a fuel hedging loss of $11 million were partially offset by a reduction of $153 million due to the favourable impact of a stronger Canadian dollar.

Ownership costs, comprised of aircraft rent and depreciation, amortization and obsolescence expenses, increased $8 million in Quarter 3 2006 and $48 million in the first nine months of 2006 and included the addition of 23 Embraer aircraft to Air Canada's operating fleet offset by the transfer of 19 CRJ100 aircraft to Jazz and aircraft returns and terminations. The year-over-year effect of increasing the number of MD-11 freighter aircraft was also a factor in the increase in aircraft rent in the first six months of 2006. A change in assumptions relating to the residual values of certain aircraft accounted for approximately $10 million of the increase in Quarter 3 2006 and $30 million in the first nine months of 2006. The increases in the quarter and on a year-to-date basis were partly offset by the impact of a stronger Canadian dollar on aircraft rent which amounted to approximately $7 million in Quarter 3 2006 and $15 million in the first nine months of 2006.

Airport and navigation fees increased $17 million or 7 percent in Quarter 3 2006 and $48 million or 7 percent in the first nine months of 2006, mainly due to an increase in aircraft departures and increased rates for landing and general terminal fees primarily at Toronto's Pearson International Airport. For both Quarter 3 2006 and the first nine months of 2006, aircraft departures were up 6 percent.

Aircraft maintenance, materials and supplies increased $17 million or 11 percent in Quarter 3 2006 and $50 million or 10 percent in the first nine months of 2006, in large part due to an increase in Airbus A320 aircraft maintenance costs. These aircraft are currently in a work cycle which requires replacement of engine life limited parts as well as major inspections. Higher maintenance expenses related to satisfying minimum return conditions on short-term aircraft leases and provisions for future return to lessor expenses and increased engine activity on other aircraft types were also factors in the increase over Quarter 3 2005 and the first nine months of 2005.

Commission expense decreased $7 million or 10 percent in Quarter 3 2006 and $18 million or 9 percent in the first nine months of 2006 on combined passenger and cargo revenue growth in Quarter 3 2006 and in the first nine months of 2006 of 4 and 9 percent, respectively. The decrease in commission expense was largely due to the impact of a change in the base commission structure together with other commercial initiatives to reduce commission expense which more than offset the volume-related increase.

For Quarter 3, 2006 and for the first nine months of 2006, capacity fees paid to Jazz, pursuant to the Jazz CPA in 2006 and the Initial Jazz CPA in 2005, increased $43 million and $148 million, respectively, over the same periods in 2005, mainly driven by a growth of 26 aircraft in Jazz's fleet resulting in a 26 percent increase in block hours (30 percent on a year-to-date basis). This increase was partly offset by a decrease in Quarter 3 2006 in performance incentives payable to Jazz.

Non-operating expense amounted to $53 million in Quarter 3 2006 compared to non-operating expense of $32 million for Quarter 3 2005. For the first nine months of 2006, non-operating expense amounted to $139 million compared to non-operating expense of $138 million for the first nine months of 2005. For Quarter 3 2006 and for the first nine months of 2006, net interest expense decreased $8 million and $27 million, respectively, over the same periods in 2005. The increase in interest expense, largely driven by the financing of additional aircraft, was more than offset by interest capitalized and an increase in interest income due to higher cash balances and higher average interest rates. In Quarter 3, 2006, Air Canada Services recorded an expense of $12 million in other non-operating expense relating to interest rates swaps pertaining to the financing of Embraer 190 aircraft.

Losses from the revaluation of foreign currency monetary items amounted to $3 million in Quarter 3 2006. This compared to foreign exchange gains on foreign currency monetary items of $126 million in Quarter 3 2005. For the first nine months of 2006, gains from the revaluation of foreign currency monetary items amounted to $119 million, attributable to a stronger Canadian dollar at September 30, 2006 compared to December 31, 2005. This compared to foreign exchange gains of $58 million in the first nine months of 2005.

Segment income of $44 million was recorded in Quarter 3, 2006, which included the special charge for Aeroplan miles of $102 million and an income tax provision of $29 million. This compared to segment income of $240 million in Quarter 3 2005 which included an income tax provision of $123 million. Segment income of $70 million was recorded in the first nine months of 2006 which included the special charges and an income tax provision of $20 million. Segment income of $115 million was recorded in the first nine months of 2005 which included an income tax provision of $76 million.

3.4 Aeroplan

Aeroplan recorded operating income of $33 million in Quarter 3 2006 compared to operating income of $21 million in Quarter 3 2005, an increase of $12 million. For the first nine months of 2006, operating income increased $31 million over the same period in 2005. EBITDA improved $13 million over Quarter 3 2005 and $38 million over the first nine months of 2005.

The improvement in operating income and EBITDA was mainly driven by growth in miles redeemed issued by Aeroplan of 5 percent in the quarter and 3 percent on a year-to-date basis and a lower average cost per mile redeemed, partially offset by an increase in other operating expenses.

Operating revenues for Quarter 3 2006 and for the first nine months of 2006 were up $22 million or 14 percent and $75 million or 15 percent, respectively, primarily attributable to a higher number of Aeroplan miles redeemed. In the quarter, this growth accounted for the total increase of $22 million including an increase of $3 million in breakage revenues. On a year-to-date basis, the growth accounted for $71 million of the increase including an increase of $9 million in breakage revenues. The increase in breakage revenues for both the quarter and the first nine months of 2006 was due to an increase in miles sold in 2004 and 2005. A higher cumulative average selling price per Aeroplan mile, due to contractual price increases, and growth in other ancillary revenues were also factors in the increase. These increases were partly offset by lower tier management, contact centre management and marketing fees from Air Canada in both the quarter and on a year-to-date basis.

For Quarter 3 2006 and for the first nine months of 2006, cost of rewards increased $6 million and $31 million, respectively, over the same periods in 2005. These increases were attributable to a higher number of Aeroplan miles redeemed, which accounted for $16 million of the increase in the quarter and $48 million of the increase on a year-to-date basis, offset by a lower average redemption cost per Aeroplan mile redeemed for air travel rewards, representing $10 million in Quarter 3 2006 and $17 million on a year-to-date basis.

Operating expenses, excluding the cost of rewards, increased $4 million over Quarter 3 2005 and $13 million over the first nine months of 2005 and included an increase in depreciation and amortization of $1 million in the quarter and $6 million on a year-to-date basis, mainly due to increased software amortization as projects previously under development were deployed into service.

In accordance with its policy to review breakage every two years, management, assisted by independent actuaries, is in the process of completing its review of the estimated breakage factor used to determine the number of miles sold which are not expected to be redeemed. While there can be no assurance in this regard, based on preliminary results, which include the impact of the program changes described in section 2.3 of this MD&A, the breakage factor is anticipated to remain unchanged at 17 percent.

Segment income of $34 million was recorded in Quarter 3, 2006 compared to segment income of $20 million in Quarter 3 2005. Segment income of $105 million was recorded in the first nine months of 2006 compared to segment income of $71 million in the first nine months of 2005.

3.5 Jazz

Jazz recorded operating income of $39 million in Quarter 3 2006 under the Jazz CPA compared to operating income of $38 million in Quarter 3 2005 under the Initial Jazz CPA, an increase of $1 million. For the first nine months of 2006, operating income increased $16 million over the same period in 2005. EBITDAR for Quarter 3 2006 and the first nine months of 2006 improved $15 million and $66 million, respectively. The increase in operating income and EBITDAR was mainly due to the growth in fleet size consistent with Jazz's plan to increase its relative share of the North American ASM capacity, an increase in hours of contract flying, as well as cost control.

A new CPA came into effect on January 1, 2006. The major changes from the initial capacity purchase agreement include: a longer term, a larger number of covered aircraft with a guaranteed minimum of 133 aircraft throughout the term, and Jazz expenses now reimbursed by Air Canada at a higher mark-up for controllable costs, and on an at-cost basis by Air Canada for other expenses.

Operating revenues for Quarter 3 2006 and the first nine months of 2006 were up $95 million or 35 percent and $310 million or 43 percent, respectively, compared to the same periods in 2005. The significant increase in revenues was due to a net addition of 26 aircraft operated by Jazz resulting in a 26 percent increase in block hours flown in Quarter 3 2006 (30 percent in the first nine months of 2006) and higher pass-though costs charged to Air Canada under the Jazz CPA.

Performance incentives payable by Air Canada to Jazz under the Jazz CPA amounted to $2 million or 1 percent of Jazz's scheduled flights revenue in Quarter 3 2006. For the same period in 2005, performance incentives payable by Air Canada to Jazz under the Initial Jazz CPA amounted to $3 million or 2 percent of Jazz's scheduled flights revenue. This decrease is the result of Jazz not achieving certain performance targets set in the Jazz CPA for the quarter due to an unanticipated increase in controllable cancellations. The increase in controllable cancellations was a result of a computer outage at Jazz that affected the entire network, increased security measures and higher aircraft utilization which lessened Jazz's ability to recover scheduled services in the event of maintenance-related requirements. There were also supply chain challenges related to aircraft parts availability. Several initiatives have been undertaken, which will bring additional focus on risk management and improved processes. Operational performance in the final quarter of this year is expected to improve as the benefits of these initiatives materialize.

Operating expenses rose $94 million or 40 percent compared to Quarter 3 2005 and $294 million or 47 percent over the first nine months of 2005, including an increase in pass-through costs of $50 million or 56 percent in the quarter and $159 million or 74 percent on a year-to-date basis, driven largely by a capacity increase of over 46 percent and 62 percent, as measured by ASMs, over the same periods in 2005. Unit cost for Quarter 3 2006 and for the first nine months of 2006 decreased 4 percent and 12 percent, respectively, compared to the same periods in 2005, in part due to an increase in long-haul flying which generally results in lower unit costs. Excluding fuel expense, unit cost for the quarter and on a year-to-date basis was down 6 percent and 14 percent, respectively, over the corresponding periods in 2005. Unit cost reductions were achieved in all expense categories with the exception of fuel expense and aircraft rent. The unit aircraft rental cost increase mainly reflected six CRJ200 and three CRJ705 aircraft deliveries and the transfer of 19 CRJ100 aircraft from Air Canada partly offset by a termination of four Dash 8 aircraft operating leases.

Segment income of $39 million was recorded in Quarter 3, 2006 compared to segment income of $37 million in Quarter 3 2005. Segment income of $108 million was recorded in the first nine months of 2006 compared to segment income of $86 million in the first nine months of 2005.

3.6 ACTS

ACTS recorded operating income of $5 million in Quarter 3 2006, a decrease of $10 million from Quarter 3 2005 mainly due to operating losses in the aircraft maintenance division.

ACTS continued to make progress in its operating performance during the quarter reflecting improvements in productivity, turnaround times and cost controls. The operating income of $5 million recorded in Quarter 3, 2006 represented a $13 million improvement from the operating loss of $8 million recorded in Quarter 1 2006, excluding a special charge for labour restructuring of $5 million and net unfavourable one-time adjustments of $6 million, and a $4 million improvement in operating income when compared to Quarter 2 2006.

Operating revenues rose $3 million in Quarter 3 2006 from the same period in 2005, reflecting growth of $8 million in revenues from Jazz and $1 million in revenues from other third party customers offset by a decrease of $6 million in revenues from Air Canada. Quarter 3 2005 included a favourable one-time Air Canada revenue adjustment of $6 million in the component maintenance division pertaining to the first six months of 2005.

In Quarter 3 2006, operating expenses were up $13 million compared to the same period in 2005 and included an increase of $7 million in aircraft maintenance materials and supplies largely attributable to an increase in the cost of aircraft maintenance materials and engine life limited parts.

On a year-to-date basis, ACTS recorded an operating loss of $14 million in 2006 compared to operating income of $55 million in 2005. Significant production capacity growth at ACTS Montreal and Vancouver maintenance centres attracted increased expenses which drove the year-over-year deterioration, however, enabled the business to generate additional revenue, up $65 million over 2005. The 2006 year-to-date results included a special charge for labour restructuring of $5 million and other unfavourable adjustments of $6 million.

Segment income of $1 million was recorded in Quarter 3, 2006 compared to segment income of $12 million in Quarter 3 2005. A segment loss of $26 million was recorded in the first nine months of 2006 compared to segment income of $45 million in the first nine months of 2005.

On September 20, 2006, ACTS announced the amendment of its contract with Delta for heavy maintenance work on the airline's fleet of Boeing 767 wide-body and Boeing 757 narrow-body aircraft currently performed at its Vancouver facility. The contract has been amended to provide, among other things, that ACTS will now perform work solely on Delta's wide-body fleet of Boeing 767 aircraft. The two production lines previously dedicated to Delta's Boeing 757 narrow-body aircraft will initially handle Air Canada's Boeing wide-body aircraft maintenance. There is no immediate impact on staffing levels resulting from the amended agreement with Delta.

With the objective of improving ACTS' operating and cost performance, on October 11, 2006, ACTS announced organizational appointments and changes to its operations leadership team as well as implementing lean manufacturing techniques across all of its operating groups. Lean manufacturing processes aim to eliminate system waste, decrease turnaround time, improve profitability and enhance operational performance.

3.7 Corporate Items and Eliminations

CIE includes the corporate, financing and investing activities of ACE. CIE also includes certain consolidation adjustments related to revenue recognition differences amongst the operating segments. These consolidation adjustments are related to the timing of recognition and the presentation of revenue related to Aeroplan redemptions and the timing of revenue recognition related to maintenance services provided by ACTS (completed contract for engine and component maintenance services) versus the expense recognition in Air Canada and Jazz, which is as the work is completed.

The Aeroplan consolidation adjustments recorded within CIE relate mainly to the revenue recognition timing difference from when Aeroplan records revenues, at the time a mile is redeemed for travel, to the consolidated accounting policy of revenue recognition, at the time reward transportation is provided. In addition, Aeroplan records revenue from the redemption of miles in Other revenue, whereas in ACE's consolidated financial statements, revenue for miles redeemed for travel on Air Canada and Jazz is recorded in Passenger revenue. This results in an elimination of certain Aeroplan Other revenue amounts within CIE as the consolidated recognition of Aeroplan miles redeemed for travel on Air Canada and Jazz is recorded in Passenger revenue. This also results in an adjustment to Passenger revenue recorded within CIE. In the Aeroplan segment information, the cost to Aeroplan of purchasing rewards is recorded in Other operating expenses.

Included in Quarter 3 2006 results is a pre-tax gain of $52 million relating to the sale of shares of US Airways (pre-tax gain of $152 million on a year-to-date basis). Also included in year-to-date 2006 results was a dilution gain of $220 million as a result of ACE's initial public offering ("IPO") of Jazz Income Fund. Included in year-to-date 2005 results was a dilution gain of $190 million as a result of ACE's IPO of Aeroplan Income Fund and pre-tax charges of $29 million related to the extinguishment of a credit facility with GE.

4. FINANCIAL AND CAPITAL MANAGEMENT

4.1 Financial position

Condensed Statement of Financial Position *($ millions)*	September 30, 2006	December 31, 2005
ASSETS		
Cash, cash equivalents and short-term investments	2,886	2,181
Other current assets	1,241	1,173
Current assets	4,127	3,354
Property and equipment	5,822	5,494
Intangible assets	2,193	2,462
Other assets	451	537
	12,593	**11,847**
LIABILITIES		
Current liabilities	3,400	3,011
Long term debt and capital leases obligations	3,643	3,543
Pension and other benefit liabilities	2,006	2,154
Other liabilities	1,720	1,768
	10,769	10,476
NON-CONTROLLING INTEREST	225	203
SHAREHOLDERS' EQUITY	1,599	1,168
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**12,593**	**11,847**

Current assets increased $773 million since December 31, 2005, largely due to an increase in cash and short-term investments of $705 million. Property and equipment increased $328 million mainly due to property and equipment additions, as described in section 4.6, offset by depreciation. Intangible assets decreased $269 million mainly due to amortization expenses of $70 million and a reduction of $229 million relating to the accounting for future income taxes.

Current liabilities increased $389 million, mainly reflecting the seasonal increases in accounts payable and accrued liabilities and advance ticket sales as at September 30, 2006 versus December 31, 2005. Long-term debt and capital lease obligations increased by a net $100 million and included the impact of the financing activities as described in section 4.5 as well as the favourable impact of a stronger Canadian dollar on US dollar denominated debt and capital leases.

4.2 Liquidity and working capital

The Corporation maintains considerable liquidity in cash and short-term investments along with access to additional funds under various credit facilities. At September 30, 2006, the Corporation had cash, cash equivalents and short-term investments of $2,886 million and positive working capital of $727 million. Compared to December 31, 2005, cash, cash equivalents and short term investments increased $705 million and working capital increased $384 million.

At September 30, 2006, Air Canada, Aeroplan and Jazz had unused credit facilities of $250 million, $175 million and $35 million, respectively. Upon completion of the initial public offering of Air Canada shares and satisfaction of certain customary conditions, Air Canada's $250 million credit facility will be restated and amended. The amended agreement will establish a $400 million senior secured revolving credit facility.

4.3 Share information

At September 30, 2006 and at December 31, 2005, the issued and outstanding common shares of ACE, along with common shares potentially issuable, pursuant to convertible preferred shares, convertible notes and stock options were as follows:

		Number of shares (000)	
	Authorized	At September 30, 2006	At December 31, 2005
Issued and outstanding common shares			
Class A variable voting shares	Unlimited	80,142	76,735
Class B voting shares	Unlimited	21,850	25,059
Shares held in escrow		-	28
Total issued and outstanding common shares		**101,992**	**101,822**

	Number of shares (000)	
	At September 30, 2006	At December 31, 2005
Common shares potentially issuable		
Convertible preferred shares	10,614	10,228
Convertible notes	7,354	6,875
Stock options	3,871	3,187
Total common shares potentially issuable	**21,839**	**20,290**

	Number of shares (000)	
	At September 30, 2006	At December 31, 2005
Total outstanding and potentially issuable common shares	**123,831**	**122,112**

4.4 Cash flows from operations

Cash flows from operations in Quarter 3 2006 and in the first nine months of 2006 increased $171 million and $85 million, respectively, primarily as a result of favourable variances in working capital items affecting cash, partially offset by increased pension plan funding of $30 million during Quarter 3 2006 ($84 million during the first nine months of 2006). The favourable variances in working capital included a larger increase in accounts receivable in Quarter 3 2005 versus Quarter 3 2006 and an increase in accounts payable and accrued liabilities in Quarter 3 2006 versus a small decrease in Quarter 3 2005. Both of these increases are mainly due to timing differences in the settlement of amounts related to normal operating activities.

4.5 Cash flows from financing activities

Aircraft borrowings amounted to $99 million (US$89 million) in Quarter 3 2006 and $321 million (US$284 million) in the first nine months of 2006 and related mainly to the delivery of four Embraer aircraft in the quarter and 13 Embraer aircraft on a year-to-date basis. Scheduled and other debt and capital lease payments in the quarter and in the first nine months of 2006 amounted to $58 million and $207 million, respectively.

In Quarter 1 2006, ACE completed an initial public offering of Jazz Air Income Fund for aggregate net proceeds of $232 million of which $218 million is included in financing activities and $14 million is included in investment activities. In connection with the offering, Jazz arranged for senior secured syndicated credit facility in the amount of $150 million. Jazz received proceeds of $115 million ($113 million, net of fees of $2 million), representing the drawing under this new credit facility.

4.6 Cash flows used for investing activities

Additions to capital assets totaled $213 million in Quarter 3 2006 and $692 million in the first nine months of 2006. In Quarter 3 2006, these additions included $122 million related to the purchase of four Embraer aircraft ($391 million related to 13 Embraer aircraft on a year-to-date basis) and $41 million ($98 million for the first nine months of 2006) related to the aircraft interior refurbishment program and to the installation of an in-flight entertainment system on Jazz CRJ705 aircraft. In addition, pre-delivery payments made on Boeing aircraft amounted to $44 million in Quarter 1 2006. Other additions to capital assets in the quarter and for the first nine months of 2006 included inventory and spare engines, systems developments costs as well as ground equipment and facilities.

In Quarter 3 2006, the Corporation sold 1.25 million shares of its investment in US Airways for proceeds of $74 million bringing the total year-to-date proceeds to $232 million.

In Quarter 3 2006, the Corporation sold one of its commercial real estate properties for proceeds of $40 million with a carrying value of $35 million. The gain on sale of $5 million has been deferred in ACE's consolidated financial statements as a result of the leaseback of a portion of the property by subsidiaries of the Corporation. The deferred gain will be amortized into consolidated net income on a weighted average basis over the terms of two leaseback transactions, which will result in the gain being fully recognized by December 2008.

5. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results and major operating statistics for ACE for the eight most recent quarters.

($ millions, except per share amounts)	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006
Operating revenues	$2,062	$2,177	$2,458	$2,833	$2,362	$2,484	$2,682	$2,947
Special charge for Aeroplan miles [(1)]	-	-	-	-	-	-	-	(102)
Operating revenues	**$2,062**	**$2,177**	**$2,458**	**$2,833**	**$2,362**	**$2,484**	**$2,682**	**$2,845**
Operating expenses [(2)]	(2,065)	(2,187)	(2,280)	(2,512)	(2,396)	(2,546)	(2,501)	(2,642)
Operating income (loss)	**(3)**	**(10)**	**178**	**321**	**(34)**	**(62)**	**181**	**203**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax [(3)]	18	(67)	(9)	(50)	(68)	180	55	(100)
Net income (loss)	**$15**	**($77)**	**$169**	**$271**	**($102)**	**$118**	**$236**	**$103**
Earnings (loss)								
Per share – basic	**$0.17**	**($0.87)**	**$1.68**	**$2.67**	**($1.01)**	**$1.15**	**$2.32**	**$1.01**
Per share – diluted	**$0.17**	**($0.87)**	**$1.50**	**$2.33**	**($1.01)**	**$1.12**	**$2.05**	**$0.95**
Revenue passenger miles (millions)	9,681	10,586	11,613	13,981	10,584	11,240	12,248	14,346
Available seat miles (millions)	12,815	13,566	14,487	16,961	13,808	14,287	14,926	17,529
Passenger load factor (%)	75.5	78	80.2	82.4	76.7	78.7	82.1	81.8
Operating expense per available seat mile (CASM) (cents)	16.1	16.1	15.7	14.8	17.4	17.8	16.8	15.1
CASM, excluding fuel expense (cents) [(4)]	12.7	13.1	12.1	10.8	13.2	13.8	12.5	10.7
CASM, excluding fuel expense and the special charge for labour restructuring (cents) [(4)]	-	-	-	-	-	13.6	12.5	10.7

(1) Quarter 3 2006 includes a special charge of $102 million in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles.
(2) Quarter 1 2006 includes a special charge for labour restructuring of $33 million.
(3) Quarter 3 2005 includes a dilution gain of $190 million and a tax provision of $28 million as a result of ACE's IPO of Aeroplan Income Fund. Quarter 1 2006 includes a dilution gain of $220 million and a tax provision of $10 million as a result of ACE's IPO of Jazz Income Fund. Quarter 2 2006 includes a gain of $100 million and a tax provision of $17 million relating to the sale of 3.25 million shares of its holdings in US Airways. Quarter 3 2006 includes a gain of $52 million and a tax provision of $9 million relating to the sale of 1.25 million shares of its holdings in US Airways.
(4) Refer to "Non-GAAP Financial Measures" on page 25 of this MD&A for additional information.

Seasonality

The Corporation has historically experienced considerably greater demand for its services in the second and third quarters of the calendar year and significantly lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months. The Corporation has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term.

6. CONTROLS AND PROCEDURES

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

ACE's 2005 annual report contains a statement that the Chairman, President and Chief Executive Officer ("CEO") and the Executive Vice President and Chief Financial Officer ("CFO") have concluded that the Corporation's disclosure controls and procedures are effective based upon an evaluation of these controls and procedures conducted at December 31, 2005.

ACE filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators and the SEC in the United States upon filing of ACE's 2005 Annual Report. In those filings, ACE's CEO and CFO certify, as required in Canada by Multilateral Instrument 52-109 and in the United States by the Sarbanes-Oxley Act, the appropriateness of the financial disclosures and the effectiveness of ACE's disclosure controls and procedures. ACE's CEO and CFO also certify the appropriateness of the financial disclosures in its interim filings with Securities Regulators and the design of the disclosure controls and procedures.

As in prior quarters, ACE's Audit, Finance and Risk Committee reviewed this MD&A and the interim unaudited consolidated financial statements and ACE's Board of Directors approved these documents prior to their release.

7. MATERIAL CHANGES

There have been no material changes to debt and lease obligations other than those disclosed in section 4 of this MD&A. Similarly, there have been no material changes to capital expenditures, off-balance sheet arrangements, critical accounting estimates and accounting policies, with the exception of the policy on stock-based compensation disclosed in Note 1 to ACE's Quarter 2 2006 and Quarter 3 2006 Interim Unaudited Consolidated Financial Statements, from those disclosed in ACE's 2005 MD&A dated February 9, 2006.

8. RISK FACTORS

For a detailed description of the possible risk factors associated with ACE and/or its subsidiaries, refer to the section entitled "Risk Factors" in ACE's 2005 Annual MD&A dated February 9, 2006. There have been no material changes to the risk factors disclosed at that time.

9. NON-GAAP FINANCIAL MEASURES

EBITDAR/EBITDA

EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and depreciation, obsolescence and amortization, as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. For segments without aircraft rent, such as Aeroplan and ACTS, EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is used to view operating results before depreciation, amortization and obsolescence, as these costs can vary significantly among companies due to differences in the way companies finance their assets. EBITDAR and EBITDA are not recognized measures for financial statement presentation under GAAP and do not have a standardized meaning and are therefore not likely to be comparable to similar measures presented by other public companies. EBITDAR and EBITDA are reconciled to operating income (loss) as follows:

($ millions)	Quarter 3			YTD		
	2006	2005	Change	2006	2005	Change
Air Canada Services						
GAAP operating income	130	272	(142)	119	282	(163)
Add back:						
Aircraft rent	74	90	(16)	239	251	(12)
Depreciation, amortization and obsolescence	124	100	24	358	298	60
EBITDAR	**328**	**462**	**(134)**	**716**	**831**	**(115)**
Add back:						
Special charge for labour restructuring	-	-	-	28	-	28
Special charge for Aeroplan miles	102	-	102	102	-	102
EBITDAR excluding special charges	**430**	**462**	**(32)**	**846**	**831**	**15**
Aeroplan						
GAAP operating income	33	21	12	103	72	31
Add back:						
Depreciation, amortization and obsolescence	3	2	1	12	5	7
EBITDA	**36**	**23**	**13**	**115**	**77**	**38**
Jazz						
GAAP operating income	39	38	1	111	95	16
Add back:						
Aircraft rent	35	22	13	100	52	48
Depreciation, amortization and obsolescence	5	4	1	16	14	2
EBITDAR	**79**	**64**	**15**	**227**	**161**	**66**
ACTS						
GAAP operating income (loss)	5	15	(10)	(14)	55	(69)
Add back:						
Depreciation, amortization and obsolescence	8	8	-	23	24	(1)
EBITDA	**13**	**23**	**(10)**	**9**	**79**	**(70)**
Add back:						
Special charge for labour restructuring	-	-	-	5	-	5
EBITDA excluding special charges	**13**	**23**	**(10)**	**14**	**79**	**(65)**
ACE Consolidated						
GAAP operating income	203	321	(118)	322	489	(167)
Add back:						
Aircraft rent	108	112	(4)	334	300	34
Depreciation, amortization and obsolescence	145	118	27	419	357	62
EBITDAR	**456**	**551**	**(95)**	**1,075**	**1,146**	**(71)**
Add back:						
Special charge for labour restructuring	-	-	-	33	-	33
Special charge for Aeroplan miles	102	-	102	102	-	102
EBITDAR excluding special charges	**558**	**551**	**7**	**1,210**	**1,146**	**64**

Operating expense, excluding fuel expense and the special charge for labour restructuring

The Corporation uses operating expense excluding fuel expense and the special charge for labour restructuring to assess the operating performance of its ongoing business without the effects of fuel expense and special labour charges. These items are excluded from the Corporation's results as they could potentially distort the analysis of trends in business performance. Fuel expense has increased significantly year-over-year and excluding this expense from GAAP results allows the Corporation to compare its operating performance on a consistent basis. Special labour charges are not reflective of the underlying financial performance of the Corporation from ongoing operations.

Operating expense, excluding fuel expense and operating expense, excluding fuel expense and the special charge for labour restructuring is not recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies. Operating expense, excluding fuel expense and operating expense, excluding fuel expense and the special charge for labour restructuring is reconciled to operating expense as follows:

($ millions)	**Quarter 3**			**YTD**		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
ACE Consolidated						
GAAP operating expense	2,642	2,512	130	7,689	6,979	710
Remove:						
Aircraft fuel	(762)	(675)	(87)	(1,962)	(1,620)	(342)
Operating expense, excluding fuel expense	**1,880**	**1,837**	**43**	**5,727**	**5,359**	**368**
Remove:						
Special charge for labour restructuring	-	-	-	(33)	-	(33)
Operating expense, excluding fuel expense and the special charge for labour restructuring	**1,880**	**1,837**	**43**	**5,694**	**5,359**	**335**

($ millions)	**Quarter 3**			**YTD**		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Air Canada Services						
GAAP operating expense	2,622	2,485	137	7,603	6,956	647
Remove:						
Aircraft fuel	(762)	(675)	(87)	(1,961)	(1,620)	(341)
Operating expense, excluding fuel expense	**1,860**	**1,810**	**50**	**5,642**	**5,336**	**306**
Remove:						
Special charge for labour restructuring	-	-	-	(28)	-	(28)
Operating expense, excluding fuel expense and the special charge for labour restructuring	**1,860**	**1,810**	**50**	**5,614**	**5,336**	**278**

Operating expense per available seat mile, excluding fuel expense and the special charge for labour restructuring, is calculated as operating expense, removing fuel expense and the special charge for labour restructuring, divided by ASMs.

Operating income, excluding special charges for Aeroplan miles and labour restructuring
The Corporation uses operating income excluding the special charge for Aeroplan miles and the special charge for labour restructuring to assess the operating performance of its ongoing business without the effects of these special charges. These items are excluded from the Corporation's results as they could potentially distort the analysis of trends in business performance. The special charge for Aeroplan miles is the full and final settlement between the parties in connection with Air Canada's obligations for the redemption of pre-2002 miles. Special charges for Aeroplan miles and labour restructuring are not reflective of the underlying financial performance of the Corporation from ongoing operations.

Operating income, excluding the special charge for Aeroplan miles and the special charge for labour restructuring is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies. Operating income, excluding the special charge for Aeroplan miles and the special charge for labour restructuring is reconciled to operating income as follows:

($ millions)	Quarter 3			YTD		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
ACE Consolidated						
GAAP operating income	203	321	(118)	322	489	(167)
Add back:						
Special charge for Aeroplan miles	102	-	102	102	-	102
Operating income, excluding the special charge for Aeroplan miles	**305**	**321**	**(16)**	**424**	**489**	**(65)**
Add back:						
Special charge for labour restructuring	-	-	-	33	-	33
Operating income, excluding the special charges for Aeroplan miles and labour restructuring	**305**	**321**	**(16)**	**457**	**489**	**(32)**

($ millions)	Quarter 3			YTD		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Air Canada Services						
GAAP operating income	130	272	(142)	119	282	(163)
Add back:						
Special charge for Aeroplan miles	102	-	102	102	-	102
Operating income, excluding the special charge for Aeroplan miles	**232**	**272**	**(40)**	**221**	**282**	**(61)**
Add back:						
Special charge for labour restructuring	-	-	-	28	-	28
Operating income, excluding the special charges for Aeroplan miles and labour restructuring	**232**	**272**	**(40)**	**249**	**282**	**(33)**

Operating margin is calculated as operating income divided by operating revenues.

10. GLOSSARY

EBITDAR — EBITDAR is earnings before interest taxes, depreciation, amortization and obsolescence and aircraft rent and is a non-GAAP financial measure;

EBITDA — EBITDA is earnings before interest taxes, depreciation, amortization and obsolescence and is a non-GAAP financial measure;

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;

Jazz CPA — The amended and restated capacity purchase agreement, effective January 1, 2006, between Air Canada and Jazz;

Initial Jazz CPA — The capacity purchase agreement between Air Canada and Jazz Air Limited Partnership which was in effect from October 1, 2004 until December 31, 2005;

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 — Average passenger revenue per ASM;

Revenue Passenger Miles or RPMs — A measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried;

Subsidiary or Subsidiaries — refers to, in relation to ACE, any entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by ACE;

Yield — Average passenger revenue per RPM.