ACE AVIATION

# News Release

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## ACE AVIATION HOLDINGS INC. REPORTS THIRD QUARTER RESULTS

**THIRD QUARTER OVERVIEW**

- EBITDAR of $558 million (excluding special charge), an increase of $7 million from the 2005 quarter.
- Special non-cash charge of $102 million ($70 million after tax) in connection with Air Canada's obligations for the redemption of Aeroplan miles issued before 2002.
- Operating income of $305 million (excluding special charge) compared to operating income in the 2005 quarter of $321 million.
- Net income (including special charge) of $103 million compared to net income of $271 million in the 2005 quarter.
- Fuel expense increase of $87 million or 13 per cent over the prior year's quarter.
- Passenger revenues up $103 million or 4 per cent, driven by a 1 per cent yield improvement and 3 per cent growth in traffic.
- Positive cash flow from operations of $159 million, an improvement of $171 million from the third quarter of 2005.

MONTRÉAL, November 10, 2006 – ACE Aviation Holdings Inc. (ACE) today reported operating income of $305 million (excluding special charge) for the quarter, despite a fuel expense increase of $87 million or 13 per cent over the third quarter of 2005.

Net income in the 2006 quarter amounted to $103 million and included a special charge of $102 million ($70 million after tax) in connection with Air Canada's obligations for the redemption of Aeroplan miles issued before 2002, a gain of $52 million ($43 million after tax) on the sale of 1.25 million shares of US Airways and foreign exchange losses of $3 million.  Net income in the 2005 quarter of $271 million included foreign exchange gains of $125 million.

Passenger revenues were up $103 million or 4 per cent reflecting revenue increases in all markets, with the exception of the Atlantic market.  Passenger revenues increased 14 per cent on U.S. transborder services.  The overall increase in passenger revenues in the third quarter of 2006 was due to a 1 per cent improvement in system passenger revenue yield per revenue passenger mile and a 3 per cent growth in passenger traffic, on a capacity growth of 3 per cent. Revenues were impacted by the terrorist threat in the U.K. on August 10, 2006 and the new security measures introduced subsequently across the entire network. Demand has rebounded in October as evidenced by the record load factor of 78.4 per cent announced earlier this week.

Unit cost, as measured by operating expense per available seat mile (ASM), rose 2 per cent from the same period in 2005.  Excluding fuel expense, unit cost was down 1 per cent.

EBITDAR[1] for ACE amounted to $558 million (excluding special charge), an improvement of $7 million from the third quarter 2005.

Air Canada Services reported EBITDAR of $430 million, a decline of $32 million primarily reflecting the $87 million increase in fuel costs during the quarter. EBITDA at Aeroplan amounted to $36 million, representing an improvement of $13 million, driven by increased redemptions, higher average revenue recognized per Aeroplan mile, and a lower average cost per mile redeemed. Jazz EBITDAR amounted to $79 million, an improvement of $15 million. ACTS reported EBITDA of $13 million for the quarter.

“I am pleased to report a solid third quarter result with continued progress achieved in the implementation of ACE’s business strategy,” said Robert Milton, Chairman, President and Chief Executive Officer, ACE Aviation Holdings Inc.

“Air Canada Services continued to deliver a positive revenue performance, in spite of the quarter on quarter negative impact of a strong Canadian dollar on revenues in international, U.S. transborder and domestic services, the terrorist threat in London and the resultant additional security measures during the quarter and the temporary removal of content by one of the airline’s distribution providers in response to distribution model changes. Its cost performance was negatively impacted again by high fuel prices.

“Aeroplan reported another strong performance in the quarter with a sixty-one per cent increase in operating income over the previous year. The increase in distributions announced on October 16 will commence with the distribution to be declared for the month of December 2006.

“The financial performance of Jazz, ACE’s regional carrier and Canada’s second largest airline, has continuously improved since it became a publicly traded company in February. Jazz reported operating income of $39.2 million for the quarter and recorded $37 million in distributable cash to its investors. Jazz’s performance is a reflection of the stability inherent in its Capacity Purchase Agreement with Air Canada and also of ongoing progress in controlling costs. As a result of its continuing strong financial performance, Jazz has today announced a 15 per cent increase in monthly distributions.

“The results reported by ACTS represent encouraging progress over the previous two quarters. While there is still more work to be done, I am confident that ACTS is on track to deliver improving financial results as a result of the strategic changes being implemented by its new management team.”

**(1) Non-GAAP Measures**

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation and aircraft rent. EBITDAR is used to view operating results before aircraft rent and depreciation, amortization and obsolescence 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 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. Readers should refer to Consolidated Highlights or ACE's Quarter 3 2006 Management's Discussion and Analysis (MD&A) for a reconciliation of EBITDAR and EBITDA to operating income (loss).

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

***CAUTION REGARDING FORWARD-LOOKING INFORMATION***

*Certain statements in this news release may contain forward-looking statements. 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. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. 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, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout ACE's filings with securities regulators in Canada and the United States and, in particular, those identified in the Risk Factors section to ACE's 2005 MD&A dated February 9, 2006. The forward-looking statements contained herein represent ACE's expectations as of the date they are made 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.*

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**INFORMATION**


| | | |
|---|---|---|
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ACE AVIATION

# Consolidated
## HIGHLIGHTS

| Financial (Canadian dollars in millions unless stated otherwise) | Quarter 3 2006 | Quarter 3 2005 | $ Change | YTD Quarter 3 2006 | YTD Quarter 3 2005 | $ Change |
|---|---|---|---|---|---|---|
| Operating revenues, before the special charge for Aeroplan miles (1) | **2,947** | 2,833 | 114 | **8,113** | 7,468 | 645 |
| Operating revenues (1) | **2,845** | 2,833 | 12 | **8,011** | 7,468 | 543 |
| Operating income, before the special charge for Aeroplan miles (1) | **305** | 321 | (16) | **424** | 489 | (65) |
| Operating income (1) | **203** | 321 | (118) | **322** | 489 | (167) |
| Non-operating income (expense) | **(12)** | (38) | 26 | **209** | 3 | 206 |
| Income before non-controlling interest, foreign exchange and provision for income taxes | **191** | 283 | (92) | **531** | 492 | 39 |
| Income for the period | **103** | 271 | (168) | **457** | 363 | 94 |
| Operating margin, before the special charge for Aeroplan miles (1) | **10.3%** | 11.3% | (1.0) pp | **5.2%** | 6.5% | (1.3) pp |
| Operating margin | **7.1%** | 11.3% | (4.2) pp | **4.0%** | 6.5% | (2.5) pp |
| EBITDAR, before special charges (1) (2) | **558** | 551 | 7 | **1,210** | 1,146 | 64 |
| EBITDAR (2) | **456** | 551 | (95) | **1,075** | 1,146 | (71) |
| EBITDAR margin, before special charges (1) (2) | **18.9%** | 19.4% | (0.5) pp | **14.9%** | 15.3% | (0.4) pp |
| EBITDAR margin | **16.0%** | 19.4% | (3.4) pp | **13.4%** | 15.3% | (1.9) pp |
| Cash, cash equivalents and short-term investments | **2,886** | 2,481 | 405 | **2,886** | 2,481 | 405 |
| Cash flows from (used for) operations | **159** | (12) | 171 | **726** | 641 | 85 |
| Weighted average common shares used for computation - basic | **102** | 101 | | **102** | 97 | |
| Weighted average common shares used for computation - diluted | **121** | 119 | | **121** | 113 | |
| Earnings per share - basic | **$1.01** | $2.67 | ($1.66) | **$4.49** | $3.75 | $0.74 |
| Earnings per share - diluted | **$0.95** | $2.33 | ($1.38) | **$4.11** | $3.39 | $0.72 |

| Operating Statistics | Quarter 3 2006 | Quarter 3 2005 | % Change | YTD Quarter 3 2006 | YTD Quarter 3 2005 | % Change |
|---|---|---|---|---|---|---|
| Revenue passenger miles (millions) (RPM) | **14,346** | 13,981 | 3 | **37,834** | 36,180 | 5 |
| Available seat miles (millions) (ASM) | **17,529** | 16,961 | 3 | **46,742** | 45,014 | 4 |
| Passenger load factor | **81.8%** | 82.4% | (0.6) pp | **80.9%** | 80.4% | 0.5 pp |
| Passenger revenue yield per RPM (cents) | **17.8** | 17.6 | 1 | **18.1** | 17.4 | 4 |
| Passenger revenue per ASM (cents) | **14.6** | 14.5 | 1 | **14.7** | 14.0 | 5 |
| Operating revenue per ASM (cents) (3) | **16.8** | 16.7 | 1 | **17.4** | 16.6 | 5 |
| Operating expense per ASM (cents) | **15.1** | 14.8 | 2 | **16.4** | 15.5 | 6 |
| Operating expense per ASM, excluding fuel expense (cents) | **10.7** | 10.8 | (1) | **12.2** | 11.9 | 3 |
| Operating expense per ASM, excluding fuel expense and the special charge for labour restructuring (cents) (4) | **10.7** | 10.8 | (1) | **12.2** | 11.9 | 2 |
| Average number of full-time equivalent (FTE) employees (thousands) | **32.7** | 32.9 | - | **32.9** | 32.3 | 2 |
| Available seat miles per FTE employee (thousands) | **536** | 516 | 4 | **1,420** | 1,395 | 2 |
| Operating revenue per FTE employee (thousands) (3) | **$90** | $86 | 5 | **$247** | $231 | 7 |
| Aircraft in operating fleet at period end (5) | **335** | 309 | 8 | **335** | 309 | 8 |
| Average aircraft utilization (hours per day) (6) (7) | **11.1** | 11.3 | (2) | **10.5** | 10.8 | (3) |
| Average aircraft flight length (miles) (7) | **921** | 921 | - | **882** | 881 | - |
| Fuel price per litre (cents) (8) | **70.0** | 64.0 | 9 | **67.0** | 58.1 | 16 |
| Fuel litres (millions) | **1,085** | 1,055 | 3 | **2,906** | 2,786 | 4 |

(1) A special charge of $102 million was recorded to operating revenues in Quarter 3 2006 in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles ("Special charge for Aeroplan miles"). Refer to section 10 "Non-GAAP Financial Measures of ACE's Quarter 3 2006 MD&A.

(2) 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, amortization and obsolescence as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR 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.

EBITDAR is reconciled to operating income as follows:
($ millions)

| | Quarter 3 2006 | Quarter 3 2005 | YTD Quarter 3 2006 | YTD Quarter 3 2005 |
|---|---|---|---|---|
| Operating income | **203** | 321 | **322** | 489 |
| Add back: | | | | |
| Aircraft rent | **108** | 112 | **334** | 300 |
| Depreciation, amortization & obsolescence | **145** | 118 | **419** | 357 |
| EBITDAR | **456** | 551 | **1,075** | 1,146 |
| Add back: | | | | |
| Special charge for labour restructuring (3) | **-** | - | **33** | - |
| Special charge for Aeroplan miles (1) | **102** | - | **102** | - |
| EBITDAR before special charges | **558** | 551 | **1,210** | 1,146 |

(3) Before the special charge for Aeroplan miles described in (1)

(4) A special charge for labour restructuring of $33 million was recorded in Quarter 1 2006.
Operating expense per available seat mile, before 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.
Refer to section 10 "Non-GAAP Financial Measures" of ACE's Quarter 3 2006 MD&A for additional information.

(5) Operating fleet excludes chartered freighters in 2006 and 2005.

(6) Excludes maintenance down-time.

(7) Excludes third party carriers operating under capacity purchase arrangements.

(8) Includes fuel handling and fuel hedging expenses.

ACE AVIATION

## Consolidated Statement of Operations and Retained Earnings

| *(in millions except per share figures - Canadian dollars)* *(unaudited)* | Three Months Ended September 30 2006 | Three Months Ended September 30 2005 | Nine Months Ended September 30 2006 | Nine Months Ended September 30 2005 |
|---|---|---|---|---|
| **Operating revenues** | | | | |
| Passenger | **$ 2,564** | $ 2,461 | **$ 6,873** | $ 6,300 |
| Cargo | **157** | 162 | **460** | 444 |
| Other | **226** | 210 | **780** | 724 |
| | **2,947** | 2,833 | **8,113** | 7,468 |
| Special charge for Aeroplan miles | **(102)** | - | **(102)** | - |
| | **2,845** | 2,833 | **8,011** | 7,468 |
| **Operating expenses** | | | | |
| Salaries, wages and benefits | **641** | 635 | **1,919** | 1,870 |
| Aircraft fuel | **762** | 675 | **1,962** | 1,620 |
| Aircraft rent | **108** | 112 | **334** | 300 |
| Airport and navigation fees | **275** | 259 | **750** | 702 |
| Aircraft maintenance, materials and supplies | **100** | 80 | **347** | 263 |
| Communications and information technology | **70** | 75 | **217** | 230 |
| Food, beverages and supplies | **93** | 94 | **255** | 253 |
| Depreciation, amortization and obsolescence | **145** | 118 | **419** | 357 |
| Commissions | **61** | 68 | **188** | 206 |
| Special charge for labour restructuring | **-** | - | **33** | - |
| Other | **387** | 396 | **1,265** | 1,178 |
| | **2,642** | 2,512 | **7,689** | 6,979 |
| **Operating income** | **203** | 321 | **322** | 489 |
| **Non-operating income (expense)** | | | | |
| Interest income | **33** | 20 | **84** | 47 |
| Interest expense | **(94)** | (76) | **(273)** | (228) |
| Interest capitalized | **18** | 2 | **40** | 8 |
| Gain on sale of US Airways shares | **52** | - | **152** | - |
| Gain (loss) on sale of assets and provisions on assets | **(4)** | 2 | **-** | 2 |
| Dilution gain | **-** | - | **220** | 190 |
| Other | **(17)** | 14 | **(14)** | (16) |
| | **(12)** | (38) | **209** | 3 |
| **Income before the following items** | **191** | 283 | **531** | 492 |
| Non-controlling interest | **(19)** | (9) | **(53)** | (16) |
| Foreign exchange gain (loss) | **(3)** | 125 | **117** | 57 |
| Provision for income taxes | **(66)** | (128) | **(138)** | (170) |
| **Income for the period** | **$ 103** | **$ 271** | **$ 457** | **$ 363** |
| **Retained earnings, beginning of period as originally reported** | **756** | 249 | **415** | 157 |
| Adjustment related to change in accounting policy | **-** | (16) | **(13)** | (16) |
| **Retained earnings, beginning of period as restated** | **756** | 233 | **402** | 141 |
| **Retained earnings, end of period** | **$ 859** | **$ 504** | **$ 859** | **$ 504** |
| **Earnings per share (restated)** | | | | |
| **- Basic** | **$ 1.01** | **$ 2.67** | **$ 4.49** | **$ 3.75** |
| **- Diluted** | **$ 0.95** | **$ 2.33** | **$ 4.11** | **$ 3.39** |

***The notes are an integral part of the consolidated financial statements and are available on SEDAR at www.sedar.com and EDGAR at www.sec.gov/edgar.shtml***

ACE AVIATION

## Consolidated Statement of Financial Position

| *(in millions except per share figures - Canadian dollars)* *(unaudited)* | September 30 2006 | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 1,747** | $ 1,565 |
| Short-term investments | **1,139** | 616 |
| | **2,886** | 2,181 |
| Restricted cash | **51** | 86 |
| Accounts receivable | **824** | 637 |
| Spare parts, materials and supplies | **269** | 325 |
| Prepaid expenses and other current assets | **97** | 125 |
| | **4,127** | 3,354 |
| **Property and equipment** | **5,822** | 5,494 |
| **Deferred charges** | **122** | 145 |
| **Intangible assets** | **2,193** | 2,462 |
| **Investments and other assets** | **329** | 392 |
| | **$ 12,593** | **$ 11,847** |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **$ 1,532** | $ 1,355 |
| Advance ticket sales | **811** | 711 |
| Current portion of Aeroplan deferred revenues | **772** | 680 |
| Current portion of long-term debt and capital leases | **285** | 265 |
| | **3,400** | 3,011 |
| **Long-term debt and capital leases** | **3,643** | 3,543 |
| **Convertible preferred shares** | **161** | 148 |
| **Future income taxes** | **180** | 221 |
| **Pension and other benefit liabilities** | **2,006** | 2,154 |
| **Aeroplan deferred revenues** | **978** | 953 |
| **Other long-term liabilities** | **401** | 446 |
| | **10,769** | 10,476 |
| **NON-CONTROLLING INTEREST** | **225** | 203 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share capital and other equity** | **714** | 747 |
| **Contributed surplus** | **26** | 19 |
| **Retained earnings** | **859** | 402 |
| | **1,599** | 1,168 |
| | **$ 12,593** | **$ 11,847** |

***The notes are an integral part of the consolidated financial statements and are available on SEDAR at www.sedar.com and EDGAR at www.sec.gov/edgar.shtml***

| (in millions of Canadian dollars) (unaudited) | Three Months Ended September 30 2006 | Three Months Ended September 30 2005 | Nine Months Ended September 30 2006 | Nine Months Ended September 30 2005 |
|---|---|---|---|---|
| **Cash flows from (used for)** | | | | |
| **Operating** | | | | |
| Income for the period | **$ 103** | $ 271 | **$ 457** | $ 363 |
| Adjustments to reconcile to net cash provided by operations | | | | |
| Depreciation, amortization and obsolescence | **145** | 118 | **419** | 357 |
| Gain on sale of US Airways shares | **(52)** | - | **(152)** | - |
| (Gain) loss on sale of assets | **4** | (2) | **-** | (2) |
| Dilution gain | **-** | - | **(220)** | (190) |
| Foreign exchange (gain) loss | **1** | (149) | **(129)** | (94) |
| Future income taxes | **66** | 125 | **138** | 161 |
| Employee future benefit funding more than expense | **(63)** | (33) | **(131)** | (47) |
| Decrease (increase) in accounts receivable | **(49)** | (131) | **(192)** | (330) |
| Decrease (increase) in spare parts, materials and supplies | **12** | 3 | **47** | (2) |
| Increase (decrease) in accounts payable and accrued liabilities | **120** | (7) | **175** | 53 |
| Increase (decrease) in advance ticket sales, net of restricted cash | **(239)** | (155) | **150** | 345 |
| Special charge for Aeroplan miles | **102** | - | **102** | - |
| Other | **9** | (52) | **62** | 27 |
| | **159** | (12) | **726** | 641 |
| **Financing** | | | | |
| Issue of common shares | **-** | (1) | **3** | 442 |
| Issue of convertible notes | **-** | - | **-** | 319 |
| Issue of Aeroplan units | **-** | - | **-** | 232 |
| Issue of Jazz units | **-** | - | **218** | - |
| Credit facility borrowings - Aeroplan | **-** | (18) | **-** | 300 |
| Credit facility borrowings - Jazz | **-** | - | **113** | - |
| Aircraft related borrowings | **99** | 213 | **321** | 213 |
| Reduction of long-term debt and capital lease obligations | **(58)** | (67) | **(207)** | (834) |
| Distributions paid to non-controlling interests | **(14)** | (3) | **(36)** | (3) |
| Other | **-** | 1 | **-** | (4) |
| | **27** | 125 | **412** | 665 |
| **Investing** | | | | |
| Short-term investments | **(372)** | 136 | **(523)** | (1,219) |
| Additions to capital assets | **(213)** | (316) | **(692)** | (411) |
| Proceeds from sale of assets | **40** | 4 | **40** | 41 |
| Investment in US Airways shares | **-** | (87) | **-** | (87) |
| Sale of US Airways shares | **74** | - | **232** | - |
| Proceeds from sale of Aeroplan units | **-** | - | **-** | 35 |
| Proceeds from sale of Jazz units | **-** | - | **14** | - |
| Cash collaterization of letters of credit | **(11)** | (15) | **(15)** | (35) |
| Other | **(12)** | - | **(12)** | - |
| | **(494)** | (278) | **(956)** | (1,676) |
| **Increase (decrease) in cash and cash equivalents** | **(308)** | (165) | **182** | (370) |
| **Cash and cash equivalents, beginning of period** | **2,055** | 1,276 | **1,565** | 1,481 |
| **Cash and cash equivalents, end of period** | **$ 1,747** | **$ 1,111** | **$ 1,747** | **$ 1,111** |
| **Cash payments of interest** | **$ 54** | **$ 54** | **$ 194** | **$ 163** |
| **Cash payments of income taxes** | **$ 3** | **$ 11** | **$ 9** | **$ 20** |

***Cash and cash equivalents exclude Short-term investments of $1,139 as at September 30, 2006 ($616 as at December 31, 2005)***

***The notes are an integral part of the consolidated financial statements and are available on SEDAR at www.sedar.com and EDGAR at www.sec.gov/edgar.shtml***