ACE AVIATION

Quarter 1 2007
Interim Unaudited
Consolidated Financial Statements
And Notes

May 10, 2007

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended March 31 2007*	March 31 2006
Operating revenues			
Passenger		$ 2,152	$ 2,021
Cargo		140	151
Other		333	312
		2,625	2,484
Operating expenses			
Wages, salaries and benefits		698	642
Aircraft fuel		585	569
Aircraft rent		104	113
Airport and navigation fees		243	230
Aircraft maintenance, materials and supplies		136	129
Communications and information technology		76	78
Food, beverages and supplies		83	80
Depreciation, amortization and obsolescence		146	134
Commissions		59	68
Special charge for labour restructuring	note 5	9	33
Other		515	470
		2,654	2,546
Operating loss		**(29)**	**(62)**
Non-operating income (expense)			
Interest income		33	22
Interest expense		(123)	(88)
Interest capitalized		36	9
Aeroplan equity investment income	note 2	3	-
Dilution gain – Jazz		-	220
Gain on sale of assets	note 10	7	3
Gain on financial instruments recorded at fair value	note 6	34	-
Other		-	3
		(10)	169
Income (loss) before the following items		(39)	107
Non-controlling interest		(23)	(15)
Foreign exchange gain		33	13
Recovery of (provision for) income taxes	note 7		
Current		(6)	-
Future		(37)	13
Income (loss) for the period		**$ (72)**	**$ 118**
Earnings (loss) per share			
Basic		$ (0.70)	$ 1.15
Diluted		$ (0.70)	$ 1.12

The accompanying notes are an integral part of the interim consolidated financial statements.
**Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE (Note 1).*

Consolidated Statement of Financial Position

Unaudited **(Canadian dollars in millions)**		**March 31 2007***	**December 31 2006**
ASSETS			
Current			
Cash and cash equivalents		$ 1,353	$ 1,854
Short-term investments		1,077	1,324
		2,430	3,178
Restricted cash		51	109
Accounts receivable		750	729
Spare parts, materials and supplies		274	307
Prepaid expenses and other current assets		166	127
Future income taxes	note 7	51	584
		3,722	5,034
Property and equipment		6,262	5,989
Deferred charges		89	116
Intangible assets		1,267	1,643
Deposits and other assets		379	323
Future income taxes	note 7	214	336
		$ 11,933	**$ 13,441**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,620	$ 1,547
Advance ticket sales		1,192	832
Current portion of Aeroplan Miles obligation	note 2	57	58
Current portion of Aeroplan deferred revenues	note 2	-	799
Current portion of long-term debt and capital leases		357	367
Current taxes payable	note 7	6	345
		3,232	3,948
Long-term debt and capital leases	note 3	3,543	3,759
Convertible preferred shares		166	166
Future income taxes	note 7	136	136
Pension and other benefit liabilities		1,814	1,876
Aeroplan Miles obligation	note 2	80	105
Aeroplan deferred revenues	note 2	-	801
Other long-term liabilities	note 2	648	378
		9,619	11,169
Non-controlling interest		671	695
SHAREHOLDERS' EQUITY			
Share capital and other equity	note 8	436	742
Contributed surplus	note 2	456	25
Retained earnings		748	810
Accumulated other comprehensive income (loss)	note 1	3	-
		1,643	1,577
		$ 11,933	**$ 13,441**

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

**Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE (Note 1).*

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2007*	Year Ended December 31 2006	Three Months Ended March 31 2006
Share capital and other equity				
Common shares, beginning of period		$ 2,188	$ 2,231	$ 2,231
Distributions of Aeroplan and Jazz units	note 8	(325)	(59)	(59)
Issue of shares through stock options exercised		19	16	2
Common shares, end of period		1,882	2,188	2,174
Convertible preference shares		117	117	117
Convertible notes		92	92	92
Adjustment to shareholders' equity, beginning of period		(1,655)	(1,693)	(1,693)
Adjustment to fresh start provisions		-	38	-
Adjustment to shareholders' equity, end of period		(1,655)	(1,655)	(1,693)
Total share capital and other equity		436	742	690
Contributed surplus				
Balance, beginning of period		25	19	19
Fair value of stock options issued to Corporation employees recognized as compensation expense		5	13	1
Fair value of exercised stock options to share capital		-	(7)	-
Aeroplan negative investment	note 2	426	-	-
Total contributed surplus		456	25	20
Retained earnings				
Balance, beginning of period		810	402	402
Cumulative effect of adopting new accounting policies	note 1	10	-	-
		820	402	402
Net income (loss) for the period		(72)	408	118
		748	810	520
Accumulated other comprehensive income (loss)				
Balance, beginning of period		-	-	-
Cumulative effect of adopting new accounting policies	note 1	(7)	-	-
Other comprehensive income (loss)		10	-	-
		3	-	-
Total retained earnings and accumulated other comprehensive income (loss)		751	810	520
Total shareholders' equity		**$ 1,643**	**$ 1,577**	**$ 1,230**

Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2007*	Three Months Ended March 31 2006
Comprehensive income (loss)			
Net income (loss) for the period		$ (72)	$ 118
Other Comprehensive income (loss), net of taxes:			
Net change in unrealized loss on available-for-sale securities	note 6	(4)	-
Net change in unrealized gains on fuel derivatives under hedge accounting,	note 6	6	-
Reclassification of net realized losses on fuel derivatives to income	note 6	8	-
		10	**-**
Total comprehensive income (loss)		**$ (62)**	**$ 118**

The accompanying notes are an integral part of the interim consolidated financial statements.
**Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE (Note 1).*

Consolidated Statement of Cash Flows

Unaudited (Canadian dollars in millions)		Three Months Ended March 31 2007*		March 31 2006
Cash flows from (used for)				
Operating				
Income (loss) for the period		$ (72)		$ 118
Adjustments to reconcile to net cash provided by operations				
Depreciation, amortization and obsolescence		146		134
Dilution gain – Jazz		-		(220)
Gain on sale of assets	note 10	(7)		(3)
Foreign exchange gain		(33)		4
Future income taxes		37		(15)
Employee future benefit funding more than expense		(69)		(22)
Decrease (increase) in accounts receivable		(18)		(16)
Decrease (increase) in spare parts, materials and supplies		34		60
Increase (decrease) in accounts payable and accrued liabilities		105		104
Increase (decrease) in advance ticket sales, net of restricted cash		234		218
Decrease in Aeroplan Miles obligation		(25)		(31)
Increase (decrease) in Aeroplan deferred revenues		(2)		17
Aircraft lease payments (in excess of) less than rent expense		(7)		(5)
Unrealized period change in fair value of derivatives	note 6	(40)		10
Capitalized interest		(36)		(9)
Other		36		20
		283		**364**
Financing				
Issue of common shares		19		2
Issue of Jazz units		-		218
Aircraft related borrowings	note 3	112		124
Credit facility borrowings – Jazz		-		113
Reduction of long-term debt and capital lease obligations		(78)		(88)
Reduction of non-controlling interest	note 3	(36)		-
Distributions paid to non-controlling interests		(17)		(15)
Other		(1)		-
		(1)		**354**
Investing				
Short-term investments		(155)		(159)
Acquisition of Aeroman, net of cash	note 11	(53)		-
Proceeds from sale of Jazz units		-		14
Additions to capital assets		(401)		(280)
Proceeds from sale of assets	note 10	45		-
Deconsolidation of Aeroplan cash	note 2	(231)		-
Cash collaterization of letters of credit		12		(4)
		(783)		**(429)**
Increase (decrease) in cash and cash equivalents		**(501)**		**289**
Cash and cash equivalents, beginning of period		1,854		1,565
Cash and cash equivalents, end of period		**$ 1,353**		**$ 1,854**
Cash payments of interest		**$ 60**		**$ 63**
Cash payments of income taxes		**$ 6**		**$ -**

Cash and cash equivalents exclude Short-term investments of $1,077 as at March 31, 2007 ($775 as at March 31, 2006).
The accompanying notes are an integral part of the interim consolidated financial statements.
**Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE (Note 1).*

For the period ended March 31, 2007
(currencies in millions – Canadian dollars)

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment holding company of various aviation interests. Reference to the "Corporation" in the following notes to the consolidated financial statements 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.

ACE has four reportable segments: Air Canada Services, Aeroplan Limited Partnership ("Aeroplan") up to March 14, 2007 (see discussion below – Accounting for Aeroplan Investment), Jazz Air LP ("Jazz"), and ACTS Limited Partnership ("ACTS").

As at March 31, 2007, ACE holds:

- a 75.0% direct ownership interest in Air Canada, the principal entity included in the Air Canada Services segment,
- a 40.1% indirect ownership interest in Aeroplan through its holding of Aeroplan Income Fund units;
- a 58.8% indirect ownership interest in Jazz LP through its holding of Jazz Income Fund units; and
- a 100% direct ownership interest in ACTS. Refer to Note 11 on the acquisition by ACTS during Quarter 1 2007. Consideration for this acquisition included the granting of a right to receive an equity interest in ACTS expected to represent less than 7% of the total equity.

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2006 annual consolidated financial statements of the Corporation, with the exception of the changes in accounting policy described below in Changes in Accounting Policy.

In accordance with Canadian generally accepted accounting principles ("GAAP"), these interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the 2006 annual consolidated financial statements of ACE. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

The demand for services experienced within the segments of the Corporation varies over the calendar year. The Air Canada Services and Jazz segments have historically experienced greater demand in the second and third quarters as a result of the high number of leisure travelers with the preference to travel during the spring and summer months. Both segments have substantial fixed costs in their structures that do not fluctuate with passenger demand and load factors. The Aeroplan segment has experienced higher reward redemption activity by its members in the first and second quarters. The ACTS segment has experienced of lower activity in Quarter 3 as the high demand for travel during the summer month's results in airlines scheduling their service outside of that peak travel period.

ACCOUNTING FOR AEROPLAN

As a result of the special distribution of Aeroplan Income Fund units on March 14, 2007 and conversion of ACE's remaining Aeroplan LP units into units of Aeroplan Income Fund, the Corporation's results in these interim consolidated financial statements include the consolidation of Aeroplan operations up to the date of distribution and after that point the investment that ACE has in Aeroplan is accounted for using the equity method (Note 2).

CHANGES IN ACCOUNTING POLICY

On January 1, 2007, the Corporation adopted CICA accounting handbook section 3855, *Financial Instruments – Recognition and Measurement*, section 3861, *Financial Instruments – Disclosure and Presentation,* section 3865, *Hedges*, section 1530, *Comprehensive Income*, section 3251, *Equity*, and Emerging Issues Committee Abstract 164, *Convertible and Other Debt Instruments with Embedded derivatives* ("EIC-164").

Financial Instruments

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods is dependent upon the classification of the financial instrument as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The held-for-trading classification is applied when an entity is "trading" in an instrument or alternatively the standard permits that any financial instrument be irrevocably designated as held-for-trading. The held-to-maturity classification is applied only if the asset has specified characteristics and the entity has the ability and intent to hold the asset until maturity. An asset can be classified as available-for-sale when it has not been classified as trading or held-to-maturity. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in non-operating income. Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in Other Comprehensive Income ("OCI") as described below. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair values of derivative instruments are recognized in non-operating income (loss) with the exception of derivatives designated in effective cash flow hedges, as further described below.

For financial instruments measured at amortized cost, transaction costs or fees, premiums or discounts earned or incurred are recorded, at inception, net against the fair value of the financial instrument. Interest expense is recorded using the effective interest method. For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees*, the inception fair value of the obligation relating to the guarantee is recognized. It is the Corporation's policy to not remeasure the fair value of the financial guarantee unless it qualifies as a derivative.

The Corporation has implemented the following classifications:

- Cash and cash equivalents are classified as held-for-trading and any period change in fair value is recorded through net income.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.
- Accounts payable, credit facilities, and bank loans are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.
- The equity investment in US Airways Group, Inc. that ACE holds is classified as available-for-sale and unrealized period changes in fair value are recorded in OCI.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The purpose of the section is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Air Canada has designated its fuel derivatives as cash flow hedges. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI while the ineffective portion is recognized in non-operating income. Upon maturity of the fuel derivatives, the effective gains and losses previously recognized in Accumulated OCI (“AOCI”) are recorded in Fuel expense. Jazz has also designated its interest rate swaps as cash flow hedges.

When hedge accounting is discontinued, the amounts previously recognized in Accumulated OCI (“AOCI”) are reclassified to non-operating income (loss) during the periods when the variability in the cash flows of the hedged item affects net income. Gains and losses on derivative hedging items are reclassified to non-operating income (loss) immediately when the hedged item is sold or terminated early.

Comprehensive Income

Section 1530 introduces Comprehensive Income, which consists of Net Income and OCI. OCI represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources that are recognized in Comprehensive income, but excluded from net income. Period changes in the fair value of the effective portion of cash flow hedging instruments are recorded in OCI. These interim consolidated financial statements include the consolidated statement of comprehensive income for Quarter 1 2007; items affecting OCI are recorded prospectively commencing from January 1, 2007 including the transition adjustments noted below. Cumulative changes in OCI are included in AOCI, which is presented as a new category within Shareholders' equity on the consolidated statement of financial position. OCI and AOCI are presented net of tax.

Equity

Section 3251 establishes standards for the presentation of equity and the changes in equity during the period.

Impact Upon Adoption

In accordance with the transitional provisions of the standards, prior periods have not been restated for the adoption of these new accounting standards.

The transition adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value, other than financial assets classified as available-for-sale and hedging instruments designated as cash flow hedges, were recognized in the opening Retained earnings of the Corporation as at January 1, 2007. Adjustments arising from remeasuring financial assets classified as available-for-sale at fair value were recognized in opening AOCI as at that date.

For the Corporation's fuel-hedging relationship classified as a cash flow hedge, which qualifies for hedge accounting under the new standard, the effective portion of any gain or loss on the hedging instruments was recognized in AOCI and the cumulative ineffective portion was included in the opening Retained earnings of the Corporation as at January 1, 2007.

Upon adoption the Corporation recorded the following adjustments to the consolidated statement of financial position:

Increase (decrease)		
Deposits and other assets	$	23
Future income taxes ($6, net of valuation allowance $6)		-
Deferred charges		(29)
Accounts payable and accrued liabilities		19
Long-term debt and capital leases		(30)
Non-controlling interest		2
Retained earnings, net of nil tax		10
Accumulated other comprehensive income (loss), net of tax of $4		(7)

Convertible and Other Debt Instruments with Embedded Derivatives

EIC-164 provides guidance on whether an issuer of certain types of convertible debt instruments should classify the instruments as liabilities or equity, whether the instruments contain any embedded derivatives, and how the instruments should be accounted for and presented. The guidance also addresses earnings per share implications. The Corporation has adopted this guidance in Quarter 1 2007 to financial instruments accounted for in accordance with section 3855. There is no financial statement impact as a result of the adoption.

Accounting for Uncertainty in Income Taxes (FIN 48)

For US GAAP reporting, new standards from the Financial Accounting Standards Board (FASB) are effective on January 1, 2007 for the Corporation. FIN 48, *Accounting for Uncertainty in Income Taxes*, is an interpretation of FASB statement 109, *Accounting for Income Taxes*, that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This implementation of this standard will be in the Corporation's Quarter 2 2007 reconciliation of Canadian GAAP to US GAAP.

Future Accounting Changes

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*. These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Corporation will adopt them on January 1, 2008. The Corporation is in the process of evaluating all of the consequences of the new standards, which may have a material impact on the Corporation's financial statements.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Employee Future Benefits

The Accounting Standards Board ("AcSB") has issued an Exposure Draft to amend section 3461, *Employee Future Benefits*. The Exposure Draft addresses, in a limited manner, recognition, measurement, presentation and disclosure requirements of accounting for employee future benefits. Specifically, in its current draft form, it will require:

- recognition of the funded status (the difference between the plan assets and obligations) of an entity's post-retirement defined benefit plans on the statement of financial position;
- recognition of the changes in the funded status in comprehensive income in the year in which the changes occur;
- recognition of corresponding adjustments from accumulated other comprehensive income to components of benefit cost in net income to maintain the same reported net income as under current section 3461; and
- measurement of plan assets and the accrued benefit obligation at the statement of financial position date, instead of allowing a date that is up to three months before the end of an entity's fiscal year.

The AcSB expects to issue its final amendments to section 3461, in the second half of 2007. The recognition and related disclosure provisions will be effective for fiscal years ending on or after December 31, 2007 for publicly accountable enterprises. The measurement date provisions will be effective for fiscal years ending on or after December 31, 2008.

2. ACCOUNTING FOR AEROPLAN

As a result of the distribution of units of Aeroplan Income Fund on March 14, 2007, ACE's ownership interest in Aeroplan was reduced to 40.1%, indirectly through the direct interest ACE has in Aeroplan Income Fund, which holds 100% of Aeroplan LP. As of the distribution date, ACE no longer consolidates the results and financial position of Aeroplan LP.

The consolidated statement of operations for Quarter 1 2007 includes $3 of equity income from the Aeroplan investment representing the results of operations after the distribution date, which would have previously been consolidated in the consolidated financial statements.

The consolidated statement of financial position as at March 31, 2007 does not include the financial position of Aeroplan. The comparative December 31, 2006 consolidated statement of financial position included the following items:

- cash and cash equivalents of $167, short-term investments of $453 and other current assets of $72;
- long-lived assets of $373;
- current liabilities of $670;
- long-term debt of $300; and
- Aeroplan long-term deferred revenues of $801.

As at March 14, 2007, ACE's net investment in Aeroplan LP was $(710), which was negative due to accumulated distributions to ACE in excess of income and capital invested, net of fair value adjustments recorded upon the application of fresh start reporting. Subsequent to the distribution on March 14, 2007, ACE's 40.1% proportionate interest in the accumulated deficit of Aeroplan LP was $284. ACE has retained this negative investment of $284 and reflected the amount in Other long term liabilities. As a result, the difference between the net investment prior to and after the distribution has been recorded as a credit to Contributed Surplus in the amount of $426.

The cash flow impact to ACE of deconsolidating Aeroplan of $231 reflects the Aeroplan cash being removed from the consolidated statement of financial position of ACE and is classified as a cash outflow from investing activities.

The Corporation has various related party transactions after removing Aeroplan from the consolidation of ACE and these transactions are recorded at the exchange amount. Related party trade balances arise from the provision of services, as outlined in the table below, and the allocation of employee related costs.

The related party balances with Aeroplan resulting from the application of the commercial and contractual agreements were as follows:

		March 31 2007
Accounts receivable	$	34
Distribution receivable		6
	$	40

The related party revenues and expenses with Aeroplan for the period between March 14, 2007 and March 31, 2007 are summarized as follows:

		Period Ended March 31 2007
Revenues		
Revenues from Aeroplan related to Aeroplan rewards	$	38
Cost of Aeroplan Miles purchased from Aeroplan		(22)
Property rental revenues from related parties		1
	$	**17**
Expenses		
Call centre management and marketing fees for services from Aeroplan	$	1
Recovery of wages, salary and benefit expense for employees assigned to Aeroplan		(4)
	$	**(3)**

Aeroplan Miles Obligation

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 has a liability related to Aeroplan Miles which were issued prior to January 1, 2002. As a result, there is a continuing obligation relating to these Miles. Aeroplan assumed responsibility for all Miles issued beginning January 1, 2002.

As of March 31, 2007, a liability for approximately 13 billion Miles, or $137, remains in Air Canada, of which $57 is included in current liabilities (total liability of 15 billion Miles, or $163, as at December 31, 2006).

The 2006 consolidated financial statements of ACE presented this obligation within Aeroplan deferred revenues on the consolidated statement of financial position. As a result of Aeroplan no longer being consolidated in ACE after March 14, 2007, the comparative December 31, 2006 obligation of $163 has been presented separately in the Quarter 1 2007 interim consolidated statement of financial position.

3. LONG-TERM DEBT AND CAPITAL LEASES

ACE Convertible Senior Notes

In connection with the distribution of units of Aeroplan Income Fund and Jazz Air Income Fund to the shareholders of ACE (Note 9), the conversion rate of the 4.25% Convertible Senior Notes due 2035 ("Convertible Notes") to Class A variable voting shares (if the holder is not a Canadian) or Class B voting shares (if the holder is Canadian) per $1,000 principal amount of Convertible Notes has been adjusted.

As a result of the January 10, 2007 distribution the conversion rate was adjusted from 22.2838 to 27.6987, effective January 27, 2007. As a result of the March 14, 2007 distribution the conversion rate was adjusted from 27.6987 to 32.5210, effective March 31, 2007. Both adjustments were determined in accordance with the terms of indenture governing the Convertible Notes.

Air Canada Aircraft Financing

The following table summarizes the loans, secured by the delivered aircraft, which Air Canada drew during Quarter 1 2007 to finance the acquisition of Embraer aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 1 2007					
Embraer 190	4	6.813%	2019	$ 90	$ 105
Total	**4**			**$ 90**	**$ 105**

The interest rate above represents the weighted average fixed interest rate on the loans.

The following table summarizes the principal repayment requirements of the Embraer aircraft financing obtained during Quarter 1 2007 as at March 31, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012
Embraer aircraft financing	$ 4	$ 5	$ 5	$ 5	$ 5	$ 9

Reduction in Non-controlling Interest

During Quarter 1 2007 the Corporation refinanced five CRJ aircraft and the refinancing included a payment of the non-controlling interest portion of the leasing arrangement to third parties of $36.

4. POST-EMPLOYMENT EXPENSES

The Corporation has recorded pension and other employee future benefits expense as follows:

	Three Months Ended	
	March 31 2007	March 31 2006
Pension benefit expense	$ 38	$ 45
Other employee future benefit expense	30	28
	$ 68	**$ 73**

5. LABOUR RELATED PROVISIONS

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities for balances that existed upon the implementation of fresh start reporting on September 30, 2004 (current portion included in Accounts payable and accrued liabilities):

	Three Months Ended	
	March 31 2007	**March 31 2006**
Beginning of period	$ 77	$ 144
Charges recorded in wages, salaries and benefits	-	-
Interest accretion	1	2
Amounts disbursed	(11)	(13)
End of period	67	133
Current portion	(31)	(38)
	$ 36	**$ 95**

During 2006, as a result of a review of the outstanding provisions related to programs implemented prior to September 30, 2004, it was determined that a portion of the provision amounting to $23 would no longer be required and was adjusted during Quarter 3 2006. The amount reversed has been applied as an adjustment to shareholders' equity.

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities for balances that have been created subsequent to the implementation of fresh start reporting on September 30, 2004 (current portion included in Accounts payable and accrued liabilities):

	Three Months Ended	
	March 31 2007	**March 31 2006**
Beginning of period	$ 32	$ 13
Special charge for labour restructuring:		
2007 ACTS workforce reduction	9	-
2006 Non-unionized reduction	-	33
Charges recorded in wages, salaries and benefits	2	-
Amounts disbursed	(4)	(2)
End of period	39	44
Current portion	(28)	(39)
	$ 11	**$ 5**

The Corporation offers severance programs to certain employees from time to time. The cost of these programs is recorded within operating expenses. The Corporation does not have any continuing obligation to offer these programs.

During Quarter 1 2007 a special charge of $9 was recorded in the ACTS segment for the workforce reduction announced as a result of the termination of a heavy maintenance contract at ACTS. This workforce reduction will be completed during 2007.

During Quarter 1 2006 a workforce reduction plan was announced to reduce non-unionized employee levels by 20 percent. A special charge of $28 was recorded in the Air Canada Services segment and $5 in ACTS in Quarter 1 2006 relating to this program. During Quarter 4 2006, the estimated cost of this plan to the Air Canada Services segment was revised due to the favourable impact of attrition and other factors which reduced the cost of achieving the target. As a result, the Air Canada Services segment recorded a reduction of $8 in Quarter 4 2006 to the special charge for labour restructuring.

6. DERIVATIVE AND FINANCIAL INSTRUMENTS

Fuel Price Risk Management

The financial results of Air Canada are impacted by changes in jet fuel prices as a result of Air Canada's inherent dependence on energy for its operations. To manage its exposure to jet fuel prices, Air Canada enters into derivative contracts with financial intermediaries for the purpose of managing volatility in operating cash flows. Air Canada uses derivative contracts on jet fuel and also on other crude oil based commodities, such as heating oil and crude oil, due to the relative limited liquidity of jet fuel derivative instruments on a medium to longer term horizon, since jet fuel is not traded on an organized futures exchange. Air Canada does not purchase or hold any derivative financial instruments for trading purposes.

Air Canada designates its fuel derivatives as hedges and applies hedge accounting as prescribed under CICA section 3865, Hedges. Designated hedging items under cash flow hedges result in all period changes in the fair value of the hedging item that are considered effective being recorded in AOCI until the underlying jet fuel is consumed. Upon maturity of the hedging item, the effective gains and losses are recorded in Fuel expense. The ineffective component of the period change in fair value is recorded in non-operating income.

Effectiveness is defined as the extent to which changes in the fair value of a hedged item relating to a risk being hedged is offset by changes in the fair value of the corresponding hedging item. Air Canada's accounting policy measures effectiveness based on the change in the intrinsic value of fuel derivatives compared to the change in the intrinsic value of the anticipated jet fuel purchase (based on the Corporation's weighted average price). As Air Canada's current policy does not take into account variables affecting fair value such as volatility and time value of money, a significant component of the change in fair value of outstanding fuel derivatives may be recorded as ineffective under the current policy. Management is considering amending its policy on future designated hedging relationships to reduce the occurrence of hedge ineffectiveness.

Ineffectiveness is inherent in hedging diversified jet fuel purchases with derivative positions in crude oil and related commodities and in the differences between intrinsic values and fair market values of the derivative instruments, especially given the magnitude of volatility observed in oil market prices. As a result Air Canada is unable to predict the amount of ineffectiveness for each period. This may result, and has resulted, in increased volatility in the accounting results of Air Canada, but has no impact on the underlying cash flows.

If the hedge ceases to qualify for hedge accounting, any period change in fair value of the fuel derivative instrument is recorded in non-operating income. For those fuel derivatives that do not qualify for hedge accounting, the period changes in fair value of the fuel derivative is recorded in non-operating income.

The following table provides the changes in fair value of designated hedging items before the impact of tax during Quarter 1 2007:

Increase (decrease)	Fair value of outstanding fuel derivatives	OCI / AOCI	Fuel expense	Non-operating income (loss)	Retained earnings / non-controlling interest	Cash on settlement
January 1, 2007	$ (18)	$ (26)	$ -	$ -	$ 8	$ -
Unrealized period change in fair value	39	9	-	30	-	-
Realized loss on maturing contracts	14	8	8	-	-	(14)
March 31, 2007	$ 35	$ (9)	$ 8	$ 30	$ 8	$ (14)

The net fair value of derivatives maturing during Quarter 1 2007 and were settled with the counterparties was $14 in favour of the counterparties. A charge of $8 was recorded in Fuel expense representing the effective portion of the net fair value, consisting of $7, net of nil tax, that was recorded within AOCI as at January 1, 2007 and $1, net of nil tax, for the period change during Quarter 1 2007.

As at March 31, 2007, the fair value of Air Canada's outstanding fuel derivative instruments under hedge accounting was net $35 in favour of Air Canada (net $18 in favour of the counterparties as at December 31, 2006). The effective portion of the unrealized period change in fair value recorded in OCI during Quarter 1 2007 was $6, net of tax of $3.

As at March 31, 2007, a net loss of $12, net of tax of $3, relating to unrealized gains and losses on outstanding fuel derivative instruments is included in AOCI. The net unrealized losses are expected to be realized as the contracts mature during the remainder of 2007 and the beginning of 2008.

For those fuel derivative instruments that do not qualify for hedge accounting, Air Canada recorded a net gain of $2 in non-operating income during Quarter 1 2007 representing the period change in fair value. As at March 31, 2007, the fair value of the outstanding derivative not under hedge accounting was less than $1 in favour of the counterparty.

Foreign Exchange Risk Management

During Quarter 1 2007, Air Canada's currency swaps for five CRJ leases with third parties were settled at their fair value of $10 (which was equal to carrying value) upon the expiry of the lease term.

US Airways Investment

ACE's investment in US Airways Group, Inc. ("US Airways") has been classified as available-for-sale and the period change in fair value has been treated as a charge through OCI amounting to $4, net of tax of $1 during Quarter 1 2007. As at March 31, 2007, an amount of $15, net of tax, relating to the unrealized gain on the investment is included in AOCI.

7. INCOME TAXES

The following income tax related amounts appear in the Corporation's consolidated statement of financial position.

Asset (liability)		March 31 2007		December 31 2006
Future income taxes asset recorded in current assets (a)	$	51	$	584
Future income taxes asset (b)	$	214	$	336
Current taxes payable (c)	$	(6)	$	(345)
Future income taxes liability	$	(136)	$	(136)

a) Future Income Taxes Asset Recorded In Current Assets

During Quarter 1 2007, future income tax assets of Air Canada of $345 were utilized to recover a current tax payable of the same amount.

In addition, the Corporation realized $328 of future income tax assets, of which $196 were current future income tax assets, through the distribution of Aeroplan units (note 9).

b) Future Income Taxes Asset

During Quarter 1 2007 the Corporation realized $328 of future income tax assets, of which $132 were non-current future income tax assets, through the distribution of Aeroplan units (Note 9). In addition, the Corporation realized $40 of future income tax assets through the distribution of Jazz units (Note 9) which had been offset by a valuation allowance. A reduction of intangible assets of $40 was recorded as a result of the reversal of the valuation allowance.

c) Current Taxes Payable

As part of a tax loss utilization strategy that was planned in conjunction with the initial public offering of Air Canada and corporate restructuring, a current tax payable of $345 was created in 2006. This tax payable arose upon a transaction to transfer tax assets from Air Canada to ACE. This tax payable was recoverable from future income tax assets of Air Canada, and was settled during Quarter 1 2007. During Quarter 1 2007 the Air Canada Services segment recorded interest expense of $6 due on the tax balance prior to its recovery. This amount has been recorded in Current income taxes on the consolidated statement of operations. Interest expense on the tax liability ceased on April 29, 2007.

d) Provision For Income Taxes

Components of the provision for income taxes are as follows:

	Three Months Ended			
		March 31 2007		March 31 2006
Recovery of (provision for) income taxes before under noted items	$	3	$	29
Special distribution of Aeroplan units		(29)		(6)
Special distribution of Jazz units		(4)		-
Effect of changes in tax elections previously estimated		(17)		-
Issue of Jazz units		-		(10)
Effect of tax rate changes on temporary differences		10		-
Interest expense (c)		(6)		-
Recovery of (provision for) income taxes	**$**	**(43)**	**$**	**13**

The Corporation is in the process of finalizing certain tax elections. Future income tax expense of $17 was recorded during Quarter 1 2007 as a result of a change to previously estimated elected amounts.

8. SHAREHOLDERS' EQUITY

Share Information

The issued and outstanding common shares of ACE as at March 31, 2007, along with potential common shares, are as follows:

Outstanding shares (000)	March 31 2007	December 31 2006
Issued and outstanding		
Class A variable voting shares	80,458	79,499
Class B voting shares	22,879	22,772
Total issued and outstanding	103,337	102,271
Potential common shares		
Convertible preference shares	10,878	10,747
Convertible notes	10,732	7,354
Stock options	3,989	3,598
Total potential common shares	25,599	21,699

The information presented in the table above reflects the changes in connection with the distributions of units of Aeroplan Income Fund and units of Jazz Air Income Fund as described in Note 3 and Note 9.

As a result of the distributions of units of Aeroplan Income Fund and units of Jazz Air Income Fund (Note 9), a future income tax expense of $309 was recorded in shareholders' equity. In addition, as described in Note 9, a reduction to share capital of $16 was recorded on the Jazz distribution, with an offset to the Jazz non-controlling interest.

9. DISTRIBUTIONS OF AEROPLAN AND JAZZ UNITS

On March 3, 2006, ACE effected a distribution of 0.18 units of Aeroplan Income Fund per Class A Variable Voting Share, Class B Voting Share and Preferred Share (on an as converted basis) of ACE to its shareholders of record as at such date by way of reduction of capital. For the purposes of the distribution, ACE converted 20,204,165 units of Aeroplan LP into 20,204,165 units of Aeroplan Income Fund which were distributed to ACE's shareholders on the record date.

On October 5, 2006, the shareholders of ACE 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 distributions to ACE shareholders in an aggregate amount of up to $2 billion by way of reduction of the stated capital of the Variable Voting Shares, Voting Shares and Preferred Shares (hereafter referred to as the "Plan").

On December 28, 2006, ACE announced the terms of a distribution under the Plan, pursuant to which ACE shareholders of record on January 10, 2007, would receive a distribution of 50 million units of Aeroplan Income Fund, or approximately 0.442 units of Aeroplan Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. Based on a closing price of $17.97 per unit of Aeroplan Income Fund on the TSX on January 10, 2007, the value of the distribution was approximately $899 million. In anticipation of the distribution, on December 28, 2006, ACE exchanged 50 million units of Aeroplan LP into 50 million units of Aeroplan Income Fund and caused such units of Aeroplan Income Fund to be distributed to ACE's eligible shareholders of record on January 10, 2007. ACE also exchanged on January 10, 2007, 60 million units of Aeroplan LP into 60 million units of Aeroplan Income Fund for internal reorganization purposes.

On March 2, 2007, ACE announced a second distribution under the Plan pursuant to which ACE's shareholders of record on March 14, 2007 were entitled to receive 20,272,917 units of Aeroplan Income Fund, or approximately 0.177 units of Aeroplan Income Fund, and 25 million units of Jazz Air Income Fund units, or approximately 0.219 units of Jazz Air Income Fund per Variable Voting Share, Voting Share and Preferred Share (on an as converted basis) of ACE. Based on a closing price of $19.40 per unit of Aeroplan Income Fund and $8.60 per unit of Jazz Air Income Fund on the TSX on March 14, 2007, the value of the distribution was approximately $608 million. For the purpose of the distribution, on March 14, 2007, ACE exchanged 25 million units of Jazz LP into 25 million units of Jazz Air Income Fund. For internal reorganization purposes, on March 14, 2007, ACE also exchanged its remaining 40,545,835 units of Aeroplan LP into 40,545,835 units of Aeroplan Income Fund.

The following table summarizes the units distributed to shareholders during Quarter 1 2007:

Distributions	January 10 2007 Aeroplan units distributed	March 14 2007 Aeroplan units distributed	March 14 2007 Jazz units distributed	Total units distributed
Distributed to common shareholders	45,240,473	18,345,927	22,623,690	86,210,090
Distributed to preferred shareholders	4,759,527	1,926,990	2,376,310	9,062,827
	50,000,000	20,272,917	25,000,000	95,272,917

Since the approval of the statutory plan of arrangement in October 2006, approximately $1.5 billion of the $2 billion approved under the Plan has been distributed.

On March 30, 2007, ACE exchanged its remaining 47,226,920 units of Jazz LP into 47,226,920 units of Jazz Air Income Fund for internal reorganization purposes.

<u>Distributions to Common Shareholders</u>

The distributions to holders of Variable Voting Shares and Voting Shares totaling 63,586,400 units of Aeroplan Income Fund ("Aeroplan units") and 22,623,690 units of Jazz Air Income Fund ("Jazz units") were non-monetary non-reciprocal transfers to owners. Non-monetary non-reciprocal transfers to owners are recorded at the carrying amount of the net assets transferred and do not give rise to a gain or loss.

For the Aeroplan units distributed, as Aeroplan was in a deficit position at the time of the distribution, no amounts have been reflected for this element of the distribution, other than accounting entries relating to future income taxes (Note 7). As a result of the March 14, 2007 distribution, ACE's indirect investment in Aeroplan LP was a re-consideration event for accounting purposes and resulted in adjustments coming from ACE no longer consolidating Aeroplan after this distribution. The impact and the adjustments are described in Note 2.

Distribution to common shareholders	Aeroplan units distributed
January 10, 2007	45,240,473
March 14, 2007	18,345,927
	63,586,400

For the Jazz units distributed, $15 was recorded as a reduction to share capital and an increase to non-controlling interest on the consolidated statement of financial position, representing the proportionate carrying amount of ACE's investment in Jazz related to the distribution to the Class A and Class B shareholders. Refer to Note 7 for the accounting entries relating to future income taxes on the Jazz units distributed. The following table summarizes the financial statement impact of the Jazz units distributed to Class A and Class B shareholders:

Distribution to common shareholders	Jazz units distributed	Reduction to share capital recorded	Increase in non-controlling interest recorded
March 14, 2007	22,623,690	$ (15)	$ 15

Distributions to Preferred Shareholders

The distributions to preferred shareholders of ACE totaled 6,686,517 Aeroplan units and 2,376,310 Jazz units. These transactions were considered a non-reciprocal transfer to non-owners since the holders of the Preferred Shares are not considered owners of the Corporation for accounting purposes. The transfers are measured at fair value at the date of distribution and results in net interest expense being recorded which is the fair value of each distribution less the gain recorded. The gain recorded is the fair value of the distribution in excess of the Corporation's proportionate carrying value of its investment. The fair value of the distribution is based on the closing price of the Aeroplan Income Fund units and Jazz Air Income Fund units on the TSX on the day of the distribution.

The Aeroplan units distributed to preferred shareholders resulted in net interest expense recorded during Quarter 1 2007 and a proportionate reduction to intangible assets related to fair value adjustments to Aeroplan intangibles that are recorded on consolidation as a result of the dilution of interests. The following table summarizes the financial statement impact of the Aeroplan units distributed to preferred shareholders:

Distribution to preferred shareholders	Aeroplan units distributed	Fair value of distribution	Gain on distribution	Net interest expense recorded	Reduction to intangible asset recorded
January 10, 2007	4,759,527	$ 86	$ 78	$ 8	$ (8)
March 14, 2007	1,926,990	37	33	4	(4)
	6,686,517	$ 123	$ 111	$ 12	$ (12)

The Jazz units distributed to preferred shareholders resulted in net interest expense recorded during Quarter 1 2007 and an increase to non-controlling interest as a result of the dilution of interests. The following table summarizes the financial statement impact of the Jazz units distributed to preferred shareholders:

Distribution to preferred shareholders	Jazz units distributed	Fair value of distribution	Gain on distribution	Net interest expense recorded	Increase in non-controlling interest recorded
March 14, 2007	2,376,310	$ 21	$ 19	$ 2	$ (2)

The distributions described above had no cash tax consequences.

In accordance with the terms of the ACE Convertible Senior Notes, the Quarter 1 2007 distributions and return of capital triggered a conversion rate adjustment (Note 3). This change in the conversion rate did not have any accounting consequences.

In accordance with the terms of the ACE stock option plan, each distribution during Quarter 1 2007 triggered an adjustment to the exercise price and the number of options outstanding. Effective on the applicable dates of the distributions, the adjustments were applied to all unexercised ACE stock options, whether vested or not, in a consistent manner with the adjustment to the conversion rate for the convertible senior notes. In relation to the January 10, 2007 distribution, the weighted average option exercise price and number of options outstanding was amended from $26.04 and 3,570,390 options to $20.95 and 4,436,644 options. In relation to the March 14, 2007 distribution, the weighted average option exercise price and number of options outstanding was amended from $22.02 and 3,397,496 options to $18.76 and 3,989,011 options.

10. SEGMENT INFORMATION

A reconciliation of the total amounts reported by each business segment and geographic region to the applicable amounts in the consolidated financial statements follows:

	Three Months Ended March 31 2007*					
	Air Canada Services	Aeroplan	Jazz	ACTS	CIE	Total
Passenger revenue	$ 2,137	$ -	$ -	$ -	$ 15	$ 2,152
Cargo revenue	140	-	-	-	-	140
Other revenue	209	198	2	57	(133)	333
External revenue	2,486	198	2	57	(118)	2,625
Inter-segment revenue	48	3	362	196	(609)	-
Total revenues	**2,534**	**201**	**364**	**253**	**(727)**	**2,625**
Wages, salaries and benefits	499	17	83	86	13	698
Aircraft fuel	585	-	71	-	(71)	585
Aircraft rent	73	-	35	-	(4)	104
Airport user fees	243	-	47	-	(47)	243
Aircraft maintenance materials and supplies	224	-	30	79	(197)	136
Depreciation of property and equipment	118	-	5	1	1	125
Amortization of intangible assets	9	3	-	5	-	17
Obsolescence provisions	1	-	-	3	-	4
Commissions	59	-	-	-	-	59
Capacity purchase fees paid to Jazz	230	-	-	-	(230)	-
Special charge for labour restructuring	-	-	-	9	-	9
Other operating expenses	571	141	57	67	(162)	674
Total operating expenses	**2,612**	**161**	**328**	**250**	**(697)**	**2,654**
Operating income (loss)	**(78)**	**40**	**36**	**3**	**(30)**	**(29)**
Interest income	26	3	1	-	3	33
Interest expense	(91)	(3)	(2)	(5)	(22)	(123)
Interest capitalized	36	-	-	-	-	36
Aeroplan equity investment income	-	-	-	-	3	3
Gain on sale of assets	7	-	-	-	-	7
Gain on financial instruments recorded at fair value	34	-	-	-	-	34
Other non-operating income (expense)	(4)	(1)	-	-	5	-
Non-controlling interest	(2)	-	-	-	(21)	(23)
Foreign exchange gain	33	-	-	-	-	33
Recovery of (provision for) income taxes	5	-	-	-	(48)	(43)
Segment results / income (loss)	**$ (34)**	**$ 39**	**$ 35**	**$ (2)**	**$ (110)**	**$ (72)**

**Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE (Note 1). Aeroplan equity investment income is recorded within CIE prospectively from March 15, 2007.*

	Air Canada Services	Aeroplan	Jazz	ACTS	CIE	Total
						Three Months Ended March 31 2006
Passenger revenue	$ 2,002	$ -	$ -	$ -	$ 19	$ 2,021
Cargo revenue	151	-	-	-	-	151
Other revenue	195	197	2	46	(128)	312
External revenue	2,348	197	2	46	(109)	2,484
Inter-segment revenue	46	3	318	154	(521)	-
Total revenues	**2,394**	**200**	**320**	**200**	**(630)**	**2,484**
Wages, salaries and benefits	463	18	74	81	6	642
Aircraft fuel	569	-	59	-	(59)	569
Aircraft rent	83	-	32	-	(2)	113
Airport user fees	230	-	40	-	(40)	230
Aircraft maintenance materials and supplies	207	-	23	64	(165)	129
Depreciation of property and equipment	101	-	4	2	-	107
Amortization of intangible assets	13	4	-	3	3	23
Obsolescence provisions	1	-	-	3	-	4
Commissions	68	-	-	-	-	68
Capacity purchase fees paid to Jazz	206	-	-	-	(206)	-
Special charge for labour restructuring	28	-	-	5	-	33
Other operating expenses	549	139	53	61	(174)	628
Total operating expenses	**2,518**	**161**	**285**	**219**	**(637)**	**2,546**
Operating income (loss)	**(124)**	**39**	**35**	**(19)**	**7**	**(62)**
Interest income	17	4	1	-	-	22
Interest expense	(71)	(3)	(2)	(4)	(8)	(88)
Interest capitalized	10	-	(1)	-	-	9
Dilution gain – Jazz	-	-	-	-	220	220
Gain (loss) on sale of assets	2	-	-	-	1	3
Other non-operating income (expense)	2	(1)	-	-	2	3
Non-controlling interest	(4)	-	-	-	(11)	(15)
Foreign exchange gain	13	-	-	-	-	13
Recovery of (provision for) income taxes	29	-	-	-	(16)	13
Segment results / income (loss)	**$ (126)**	**$ 39**	**$ 33**	**$ (23)**	**$ 195**	**$ 118**

Geographic Information

Passenger revenues	Three Months Ended March 31 2007	March 31 2006
Canada	$ 854	$ 786
US Transborder	492	474
Atlantic	361	339
Pacific	213	198
Other	232	224
	$ 2,152	**$ 2,021**

Cargo revenues	Three Months Ended March 31 2007	March 31 2006
Canada	$ 25	$ 28
US Transborder	7	8
Atlantic	57	55
Pacific	40	49
Other	11	11
	$ 140	**$ 151**

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin or destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origin or destinations principally in Europe. Pacific refers to flights that cross the Pacific Ocean with origin or destinations principally in Asia.

Other revenues are principally provided to customers located in Canada.

Segment Asset Information

					March 31 2007*
	Air Canada Services	Jazz	ACTS	CIE	Total
Cash and cash equivalents	$ 1,044	$ 132	$ 2	$ 175	$ 1,353
Short-term investments	925	-	-	152	1,077
	$ 1,969	$ 132	$ 2	$ 327	$ 2,430
Total assets	**$ 11,021**	**$ 492**	**$ 1,013**	**$ (593)**	**$ 11,933**

**Effective March 14, 2007 the results and financial position of Aeroplan LP are not consolidated within ACE (Note 1).*

						December 31 2006
	Air Canada Services	Aeroplan	Jazz	ACTS	CIE	Total
Cash and cash equivalents	$ 1,312	$ 167	$ 135	$ -	$ 240	$ 1,854
Short-term investments	798	453	-	-	73	1,324
	$ 2,110	$ 620	$ 135	$ -	$ 313	$ 3,178
Total assets	**$ 11,388**	**$ 824**	**$ 483**	**$ 989**	**$ (243)**	**$ 13,441**

Substantially all of the Corporation's property and equipment are related to operations in Canada.

The total assets of CIE is net of the inter-company eliminations between each of the segments and ACE.

Composition of Business Segments

The Corporation has four reportable segments: Air Canada Services, Aeroplan, Jazz, and ACTS. The Air Canada Services segment is comprised of the entities previously included within the Transportation Services segment with the exception that the activities of ACE and certain consolidation adjustments, are now included within CIE.

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. CIE also records the non-controlling interest related to ACE's investment in Aeroplan and Jazz. As described in Note 2, on March 14, 2007 the Corporation ceased to consolidate Aeroplan and the equity investment income from ACE's investment in Aeroplan during Quarter 1 2007 is recorded within CIE. Future income taxes are recorded within the applicable taxable entities and are not allocated to non-taxable entities.

The Aeroplan consolidation adjustments recorded within CIE for the period when Aeroplan is consolidated relate mainly to the revenue recognition timing difference from when Aeroplan records revenues, which is 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 on the consolidated financial statements, Miles redeemed for travel on Air Canada and Jazz are recorded in Passenger revenue. This results in an elimination of certain Aeroplan Other revenue amounts within CIE to reflect the consolidated recognition of Aeroplan Miles redeemed for travel on Air Canada and Jazz within 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.

Segment financial information has been prepared consistent with how financial information is produced internally for the purposes of making operating decisions. Segments negotiate transactions between each other as if they were unrelated parties.

Disposal of Property

During Quarter 1 2007 Air Canada sold one of its commercial real estate properties with a carrying value of $37 for proceeds of $42. The gain on sale of $5 ($4 net of tax) has been recorded in Quarter 1 2007 in the Air Canada Services segment.

11. ACQUISITION OF AEROMAN

On February 13, 2007, ACTS LP, through a wholly-owned subsidiary, acquired 80% of Aeromantenimiento, S.A. ("Aeroman"), the aircraft maintenance division of Grupo TACA Holdings Limited ("Grupo TACA") of El Salvador. Total consideration for this acquisition included cash as well as a right to acquire an equity stake in ACTS LP.

The cash component of US$45 consisted of cash of $50 (US$43) on closing and milestone payments of up to $2 (US$2) in the aggregate, funded by ACTS LP through ACE's available cash resources.

A Class A non-voting redeemable share in a wholly-owned subsidiary of ACTS LP (“exchangeable share”) was issued to Grupo TACA. The rights attached to the exchangeable share provide for, upon the closing of a monetization transaction pertaining to ACTS LP, the exchangeable share held by Grupo TACA to be exchanged for a variable number of shares or equity interest in ACTS LP. The estimated fair value of this redemption obligation is presented as a liability. The size of the equity stake to be acquired by Grupo TACA in ACTS LP will be confirmed at the time of the monetization of ACTS LP and is expected to represent less than 7% of the total equity of ACTS LP at the time of the monetization. Prior to ACTS LP's monetization, Grupo TACA can put its right to acquire equity in ACTS LP back to ACE at a discounted value from US$40.4 and accreting up to a cap of US$50.5 over 12 months or the date of monetization, if earlier. Following ACTS LP’s monetization, if Grupo TACA has exchanged its exchangeable share, Grupo TACA can put its equity in ACTS LP (or the successor from the monetization process) to ACE at US$50.5 over 12 months commencing from the date of monetization.

In connection with this acquisition, ACTS LP and its wholly-owned subsidiary also entered into a shareholders agreement with Grupo TACA. The agreement provides Grupo TACA a put option to sell the remaining 20% non-controlling interest in Aeroman to ACTS LP, exercisable at any time after February 13, 2009 for up to 50% of its interest and after February 13, 2012 for all or part of its then remaining interest. These dates are subject to a one year extension under certain circumstances. The exercise price for each option is based on a formula that is designed to be the greater of i) fair market value of the non-controlling interest at the time the option is exercised, as determined by a third party valuator; ii) US$19 up to February 13, 2013; and iii) a formula based amount linked to the fair value of ACTS LP.

As a result of the put option on 20% of the shares held by Grupo TACA, ACTS LP is considered to have acquired 100% of Aeroman and has recognized a liability for the remaining 20% non-controlling interest. Subsequent to the acquisition, consolidated earnings will include 100% of the earnings of Aeroman. In addition, the liability related to the put option is variable as its value is based on the estimated fair value of the underlying equity interest and therefore changes to fair value will be included in earnings.

This acquisition has been accounted for under the purchase method and the operations of the acquired entity are consolidated from the date of acquisition. The net assets acquired and the aggregate fair values of the consideration given are as follows:

Assets		
Cash and non-cash working capital	$	6
Property and equipment		16
Intangible assets		63
Goodwill		57
		142
Liabilities assumed		-
Net assets	**$**	**142**
Consideration given:		
Cash on closing	$	50
Financial liabilities:		
Class A non-voting redeemable share of a wholly-owned subsidiary (US$50.5)		58
Additional cash consideration		2
Transaction costs		4
		114
20% non-controlling interest subject to a put option		28
	$	**142**

The intangible assets acquired consist of $52 that are amortizable and $11 that are not subject to amortization. Of the total intangible assets and goodwill acquired, no amount is expected to be deductible for tax purposes since Aeroman is free from all types of taxes in accordance with the Industrial and Commercial Free Zone Law, from the Ministry of the Economy (publication of Agreement no. 284 in Official Gazette No. 144, dated August 19, 1999). The final allocation of the purchase price is dependent on certain ongoing valuations, which may result in changes in the assigned values as well as goodwill.

12. SUBSEQUENT EVENT

Boeing Commitments

On April 23, 2007, Air Canada amended agreements with Boeing to cancel orders for two Boeing 777 aircraft scheduled for delivery in 2009. In addition, Air Canada increased its order for Boeing 787 aircraft by 23, bringing its total firm orders to 37 Boeing 787 aircraft. Following the amendment, Air Canada has options to acquire 23 Boeing 787 aircraft. The deliveries of the Boeing 787 aircraft committed to by Air Canada are scheduled to be completed by 2014.

In conjunction with the amended agreements, Air Canada received additional financing commitments from Boeing for seven of the additional Boeing 787 aircraft (21 Boeing 787 aircraft in total) on the same terms and conditions as described in Note 15 – Commitments in the 2006 consolidated financial statements. Should Air Canada not utilize any of the financing commitments on the Boeing 777 aircraft, the financing commitments for the Boeing 787 aircraft will be increased to 31 aircraft of which the terms for 28 aircraft would be revised to cover 80% of the aircraft delivery price and the term to maturity would be reduced to 12 years with straight-line principal repayments over the term to maturity.

Based on March 31, 2007 exchange rates, the impact by year on the previously disclosed committed capital expenditures are as follows:

Change in capital commitments Increase (decrease)		**CDN**
Year ending December 31, 2007	$	30
Year ending December 31, 2008		(10)
Year ending December 31, 2009		(317)
Year ending December 31, 2010		78
Year ending December 31, 2011		285
Thereafter		3,052
	$	**3,118**

Final aircraft delivery prices include estimated escalation and deferred price delivery payment interest calculated based on the 90-day USD LIBOR rate at March 31, 2007.

Boeing 777 Financing

On April 19, 2007, Air Canada received a commitment for loan guarantee support from the Export-Import Bank of the United States covering the first seven Boeing 777 aircraft to be delivered in 2007, including the two aircraft delivered in March and April 2007. The remaining five supported Boeing 777 aircraft are scheduled for delivery later in 2007. The loan guarantee, which is subject to completion of documentation and specified terms and conditions, will cover 80% of the aircraft delivery price with a 12-year loan term and at an interest rate of approximately 5.35%, based on interest rates as at March 31, 2007.