ACE AVIATION

Quarter 3 2007
Interim Unaudited
Consolidated Financial Statements
and Notes

November 8, 2007

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended September 30 2007*	Three Months Ended September 30 2006	Nine Months Ended September 30 2007*	Nine Months Ended September 30 2006
Operating revenues					
Passenger		$ 2,660	$ 2,564	$ 7,148	$ 6,873
Cargo		132	157	407	460
Other		230	226	751	780
		3,022	2,947	8,306	8,113
Special charge for Aeroplan miles	note 2	-	(102)	-	(102)
		3,022	2,845	8,306	8,011
Operating expenses					
Wages, salaries and benefits		558	641	1,882	1,919
Aircraft fuel		716	762	1,938	1,962
Aircraft rent		66	108	261	334
Airport and navigation fees		284	275	783	750
Aircraft maintenance, materials and supplies		85	100	348	347
Communications and information technology		71	70	216	217
Food, beverages and supplies		88	93	252	255
Depreciation, amortization and obsolescence		147	145	442	419
Commissions		54	61	164	188
Capacity purchase with Jazz	note 3	234	-	310	-
Special charge for labour restructuring	note 6	-	-	15	33
Other		379	387	1,288	1,265
		2,682	2,642	7,899	7,689
Operating income		**340**	**203**	**407**	**322**
Non-operating income (expense)					
Interest income		25	33	86	84
Interest expense		(96)	(94)	(315)	(273)
Interest capitalized		24	18	88	40
Aeroplan equity investment income	note 2	15	-	35	-
Jazz equity investment income	note 3	12	-	19	-
Dilution gain – Jazz		-	-	-	220
Gain on sale of US Airways shares	note 11	4	52	8	152
Gain (loss) on disposal of assets		(2)	(4)	19	-
Gain (loss) on financial instruments recorded at fair value	note 7	(4)	(16)	24	(19)
Other		(5)	(1)	(6)	5
		(27)	(12)	(42)	209
Income before the following items		313	191	365	531
Non-controlling interest		(69)	(19)	(148)	(53)
Foreign exchange gain (loss)		104	(3)	295	117
Recovery of (provision for) income taxes					
Current		(10)	-	(16)	-
Future		(114)	(66)	(226)	(138)
Income for the period		**$ 224**	**$ 103**	**$ 270**	**$ 457**
Earnings per share					
Basic		$ 2.17	$ 1.01	$ 2.61	$ 4.49
Diluted		$ 1.84	$ 0.95	$ 2.48	$ 4.11

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

**Effective March 14, 2007 the results and financial position of Aeroplan and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1).*

Consolidated Statement of Financial Position

Unaudited		September 30 2007*	December 31 2006
(Canadian dollars in millions)			
ASSETS			
Current			
Cash and cash equivalents		$ 978	$ 1,854
Short-term investments		937	1,324
	note 16	1,915	3,178
Restricted cash		54	109
Accounts receivable		862	729
Spare parts, materials and supplies		111	307
Prepaid expenses and other current assets		153	127
Future income taxes	note 8	491	584
ACTS assets held for sale	note 16	489	-
		4,075	5,034
Property and equipment		7,150	5,989
Deferred charges		51	116
Intangible assets		596	1,643
Deposits and other assets	note 7	368	323
Future income taxes	note 8	-	336
		$ 12,240	**$ 13,441**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 1,367	$ 1,547
Advance ticket sales		1,217	832
Current portion of Aeroplan Miles obligation	note 2	55	58
Current portion of Aeroplan deferred revenues	note 2	-	799
Current portion of long-term debt and capital leases	note 4	367	367
Current taxes payable	note 8	-	345
ACTS liabilities held for sale	note 16	164	-
		3,170	3,948
Long-term debt and capital leases	note 4	3,696	3,759
Convertible preferred shares		177	166
Future income taxes	note 8	68	136
Pension and other benefit liabilities		1,855	1,876
Aeroplan deferred revenues	note 2	-	801
Other long-term liabilities	note 2	592	483
		9,558	11,169
Non-controlling interest		744	695
SHAREHOLDERS' EQUITY			
Share capital and other equity	note 9	338	742
Contributed surplus	note 2	520	25
Retained earnings		1,085	810
Accumulated other comprehensive income (loss)	note 1	(5)	-
		1,938	1,577
		$ 12,240	**$ 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 and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1).*

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)		Nine Months Ended September 30 2007	Year Ended December 31 2006	Nine Months Ended September 30 2006
Share capital				
Common shares, beginning of period		$ 2,188	$ 2,231	$ 2,231
Distributions of Aeroplan and Jazz units	note 10	(426)	(59)	(59)
Issue of shares through stock options exercised		22	16	3
Common shares, end of period		1,784	2,188	2,175
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	23
Adjustment to shareholders' equity, end of period		(1,655)	(1,655)	(1,670)
Total share capital		338	742	714
Contributed surplus				
Balance, beginning of period		25	19	19
Fair value of stock options issued to Corporation employees recognized as compensation expense		12	13	7
Fair value of exercised stock options to share capital		-	(7)	-
Aeroplan negative investment	note 2	483	-	-
Total contributed surplus		520	25	26
Retained earnings				
Balance, beginning of period		810	402	402
Cumulative effect of adopting new accounting policies	note 1	5	-	-
		815	402	402
Net income for the period		270	408	457
		1,085	810	859
Accumulated other comprehensive income (loss)				
Balance, beginning of period		-	-	-
Cumulative effect of adopting new accounting policies	note 1	(7)	-	-
Other comprehensive income		2	-	-
		(5)	-	-
Total retained earnings and accumulated other comprehensive income (loss)		1,080	810	859
Total shareholders' equity		**$ 1,938**	**$ 1,577**	**$ 1,599**

Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended September 30 2007*	Three Months Ended September 30 2006	Nine Months Ended September 30 2007*	Nine Months Ended September 30 2006
Comprehensive income					
Net income for the period		$ 224	$ 103	$ 270	$ 457
Other comprehensive income, net of taxes:					
Net change in unrealized loss on US Airways securities	note 11	-	-	(8)	-
Reclassification of realized gains on US Airways securities to income	note 11	(4)	-	(11)	-
Net change in unrealized gains on fuel derivatives under hedge accounting	note 7	11	-	25	-
Reclassification of net realized (gains) losses on fuel derivatives to income	note 7	(3)	-	7	-
Equity adjustment from foreign currency translation	note 12	(4)	-	(11)	-
		-	-	2	-
Total comprehensive income		**$ 224**	**$ 103**	**$ 272**	**$ 457**

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

**Effective March 14, 2007 the results and financial position of Aeroplan and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1).*

Consolidated Statement of Cash Flows

Unaudited (Canadian dollars in millions)		Three Months Ended September 30 2007*	Three Months Ended September 30 2006	Nine Months Ended September 30 2007*	Nine Months Ended September 30 2006
Cash flows from (used for)					
Operating					
Income for the period		$ 224	$ 103	$ 270	$ 457
Adjustments to reconcile to net cash from operations					
Depreciation, amortization and obsolescence		147	145	442	419
Dilution gain – Jazz		-	-	-	(220)
Gain on sale of US Airways shares		(4)	(52)	(8)	(152)
Loss (gain) on disposal of assets	note 11	2	4	(19)	-
Foreign exchange (gain) loss		(139)	1	(326)	(129)
Future income taxes		114	66	226	138
Excess of employee future benefit funding over expense		(32)	(63)	(170)	(131)
Decrease (increase) in accounts receivable		(38)	(49)	(131)	(192)
Decrease (increase) in spare parts, materials and supplies		(32)	12	(29)	47
Increase (decrease) in accounts payable and accrued liabilities		8	120	(31)	175
Increase (decrease) in advance ticket sales, net of restricted cash		(173)	(265)	256	136
Decrease in Aeroplan Miles obligation		(17)	(26)	(63)	(83)
Increase (decrease) in Aeroplan deferred revenues		-	52	(2)	97
Aircraft lease payments (in excess of) less than rent expense		(1)	(5)	(10)	(13)
Special charge for Aeroplan miles		-	102	-	102
Unrealized period change in fair value of derivatives	note 7	23	11	(9)	15
Capitalized interest		(24)	(18)	(88)	(40)
Non-controlling interest		69	18	139	39
Other		(19)	3	50	61
		108	**159**	**497**	**726**
Financing					
Issue of common shares		2	-	21	3
Issue of Jazz units		-	-	-	218
Aircraft and facility related borrowings	note 4	449	99	1,093	321
Credit facility borrowings – Jazz		-	-	-	113
Reduction of long-term debt and capital lease obligations		(138)	(58)	(305)	(207)
Reduction of non-controlling interest	note 4	-	-	(36)	-
Distributions paid to non-controlling interests		-	(14)	(25)	(36)
Other		(1)	-	(2)	-
		312	**27**	**746**	**412**
Investing					
Short-term investments		124	(372)	(15)	(523)
Acquisition of Aeroman, net of cash	note 12	-	-	(53)	-
Proceeds from sale of Jazz units		-	-	-	14
Sale of US Airways shares	note 11	16	74	16	232
Additions to capital assets		(588)	(213)	(1,699)	(692)
Proceeds from sale of assets	note 11	16	40	61	40
Deconsolidation of Aeroplan cash	note 2	-	-	(231)	-
Deconsolidation of Jazz cash	note 3	-	-	(138)	-
Cash collateralization of letters of credit		(4)	(11)	8	(15)
Other	note 7	(47)	(12)	(68)	(12)
		(483)	**(494)**	**(2,119)**	**(956)**
Increase (decrease) in cash and cash equivalents		**(63)**	**(308)**	**(876)**	**182**
Cash and cash equivalents, beginning of period		1,041	2,055	1,854	1,565
Cash and cash equivalents, end of period		**$ 978**	**$ 1,747**	**$ 978**	**$ 1,747**
Cash payments of interest		**$ 59**	**$ 57**	**$ 190**	**$ 194**
Cash payments of income taxes		**$ 3**	**$ 1**	**$ 12**	**$ 1**

Cash and cash equivalents exclude Short-term investments of $937 as at September 30, 2007 ($1,139 as at September 30, 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 and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1).*

For the period ended September 30, 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 aviation interests collectively, ACE and one or more of its aviation interests, one or more of ACE's aviation interests, or ACE itself.

ACE has four reportable segments: Air Canada, Aeroplan Limited Partnership ("Aeroplan") up to March 14, 2007, Jazz Air LP ("Jazz") up to May 24, 2007, and ACTS LP ("ACTS").

As at September 30, 2007, ACE holds:

- a 75.0% direct ownership interest in Air Canada;
- a 31.1% indirect ownership interest in Aeroplan through its holding of Aeroplan Income Fund units. As detailed in Note 16, subsequent to September 30, 2007, ACE has reduced its ownership in Aeroplan to 20.1%;
- a 49.0% indirect ownership interest in Jazz through its holding of Jazz Air Income Fund units. As detailed in Note 16 subsequent to September 30, 2007, ACE has reduced its ownership in Jazz to 20.1%; and
- a 100% direct ownership interest in ACTS. As detailed in Note 16, subsequent to September 30, 2007, ACE completed the monetization of ACTS and effective October 16, 2007 holds a 23.0% interest in the New ACTS. The "New ACTS" refers to ACTS post the monetization.

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 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 ACTS segment has experienced lower activity in Quarter 3 as the high demand for travel during the summer months results in airlines scheduling their maintenance service outside of that peak travel period.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.

ACCOUNTING FOR AEROPLAN

Effective March 14, 2007 as a result of the special distribution of Aeroplan Income Fund units, and the 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 only up to the date of distribution. From the date of distribution the investment that ACE has in Aeroplan is accounted for using the equity method (Note 2).

ACCOUNTING FOR JAZZ

Prior to the distribution of units on May 24, 2007 Air Canada consolidated Jazz as a variable interest entity ("VIE"). As a result of the Corporation's distribution of units of Jazz Air Income Fund on May 24, 2007, ACE's ownership interest in Jazz Air Income Fund was reduced from 58.8% to 49.0%. Jazz Air Income Fund holds all of the outstanding units of Jazz. Effective May 24, 2007 Jazz Air Income Fund was deemed to be the primary beneficiary of Jazz under AcG-15 *Consolidation of Variable Interest Entities,* and accordingly it consolidates Jazz from that date.

These interim consolidated financial statements include the consolidation of Jazz operations up to the date of the May 24, 2007 distribution and from that point the investment that ACE has in Jazz is accounted for using the equity method (Note 3).

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 and amortized over the term of the guarantee. 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.

When hedge accounting is discontinued, the amounts previously recognized in Accumulated OCI are reclassified to fuel expense during the periods when the variability in the cash flows of the hedged item affects net income.

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. Commencing in Quarter 1 2007, these interim consolidated financial statements include the consolidated statement of comprehensive income; 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)
Intangible Assets	(3)
Accounts payable and accrued liabilities	19
Long-term debt and capital leases	(30)
Non-controlling interest	4
Retained earnings, net of nil tax	5
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 of this standard.

Accounting for Uncertainty in Income Taxes (FIN 48)

For US GAAP reporting, new standards from the Financial Accounting Standards Board (FASB) became 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. Implementation of this standard is reflected in the Corporation's reconciliation of Canadian GAAP to US GAAP commencing in Quarter 2 2007 (Note 15).

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 the disclosure and presentation requirements of the new standards, however, it is not anticipated that the results of the Corporation will be affected.

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.

Inventories

The CICA issued section 3031, *Inventories*, which will replace section 3030, *Inventories*. This new standard is effective for fiscal years beginning on or after July 1, 2007, and the Corporation will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Corporation's accounting policy for inventories is currently consistent with measurement requirements in the new standard, however, additional disclosures will be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories.

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. As of the distribution date, ACE no longer consolidates the results and financial position of Aeroplan. On May 24, 2007, ACE's ownership interest in Aeroplan was further reduced to 31.1% through a distribution of units (Note 10) and subsequent to September 30, 2007 the ownership interest was further reduced to 20.1% through a sale of units (Note 16).

The consolidated statement of operations includes $35 of equity income from the Aeroplan investment which represents the results of operations from the distribution date ($15 for Quarter 3 2007).

The consolidated statement of financial position as at September 30, 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.

Immediately prior to the distribution on March 14, 2007, ACE's net investment in Aeroplan 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. As described in Note 10, the May 24 distribution of Aeroplan units resulted in a further reduction to the negative investment in Aeroplan of $63 with a credit to contributed surplus of $57 and a reduction to interest expense of $6 for a total credit to contributed surplus of $483 for the six months ended June 30, 2007.

The year to date 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 between Aeroplan and the Corporation were as follows:

($ millions)	**September 30 2007**
Accounts receivable (Air Canada)	$ 35
Distribution receivable (ACE)	4
Total Receivable	**$ 39**

The related party revenues and expenses to Air Canada with Aeroplan for the three months ended September 30, 2007 and the period from March 14, 2007 to September 30, 2007 are summarized as follows:

($ millions)	Three months ended September 30 2007	Period ended September 30 2007
Revenues		
Revenues from Aeroplan related to Aeroplan rewards	$ 117	$ 246
Cost of Aeroplan Miles purchased from Aeroplan	(56)	(140)
Property rental revenues from related parties	4	9
	$ 65	**$ 115**
Expenses		
Call centre management and marketing fees for services from Aeroplan	$2	$4
Recovery of wages, salary and benefit expense for employees assigned to Aeroplan	(13)	(30)
	$ (11)	**$ (26)**

AEROPLAN MILES OBLIGATION

In 2001, Air Canada established Aeroplan 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 103 billion Miles to be redeemed from accumulations 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.

In 2006, 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. As a result, management of Air Canada and Aeroplan concluded that they expected that 112 billion Miles would be redeemed compared to the original estimate of 103 billion. Pursuant to the terms of the CPSA, dated June 9, 2004, as amended, the management of Air Canada and Aeroplan agreed to further amend the terms of the CPSA. Effective October 13, 2006, by amendment, Air Canada assumed responsibility for the redemption of up to 112 billion Miles and, as a result, recorded a special charge of $102 for the incremental 9 billion Miles against Operating revenues in Quarter 3, 2006 and increased Aeroplan deferred revenues. This amendment to the CPSA represented full and final settlement with Aeroplan of 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 amount of the additional liability was determined by valuing the incremental Miles at fair value.

3. ACCOUNTING FOR JAZZ

As a result of the distribution of units of Jazz Air Income Fund on May 24, 2007, ACE's ownership interest in Jazz was reduced from 58.8% to 49.0%, which is held indirectly through the direct interest ACE has in Jazz Air Income Fund, which holds 100% of Jazz. As of the distribution date, ACE no longer consolidates the results and financial position of Jazz. Subsequent to September 30, 2007, through a sale of units, ACE's ownership interest was further reduced to 20.1% (Note 16).

The consolidated statement of operations includes $19 of equity income from the Jazz investment which represents the results of operations from May 24, 2007 ($12 for Quarter 3 2007).

The consolidated statement of financial position as at September 30, 2007 does not include the financial position of Jazz. The comparative December 31, 2006 consolidated statement of financial position included the following items:

- cash and cash equivalents of $135, and other current assets of $109;
- long-lived assets of $239;
- current liabilities of $213;
- long-term debt of $115; and
- other long term liabilities of $71.

As at May 24, 2007, ACE's net investment in Jazz was $42.

The year to date cash flow impact to ACE of deconsolidating Jazz of $138 reflects the Jazz 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 Jazz from the consolidation of ACE. These transactions are recorded at the exchange amount. Related party trade balances arise from the provision of services, as outlined in the table below.

The related party balances between Jazz and the Corporation were as follows:

($ millions)	**September 30, 2007**
Accounts receivable (Air Canada / ACTS)	$ 110
Distribution receivable (ACE)	5
Accounts payable (Air Canada)	(70)
Net Receivable	**$ 45**

The related party revenues and expenses with Jazz for the three months ended September 30, 2007 and for the period from May 24, 2007 to September 30, 2007 are summarized as follows:

($ millions)	**Three months ended September 30, 2007**	**Period ended September 30, 2007**
Revenues		
Revenues from Corporate services and other (Air Canada)	$ 4	$ 5
Ground handling revenues from Jazz (Air Canada)	13	17
Maintenance revenues from Jazz (ACTS)	18	21
Aircraft sub lease revenues from Jazz (Air Canada)	7	8
Property rental revenues with Jazz (Air Canada)	2	3
	$ 44	**$ 54**
Expenses (Air Canada)		
Expense from Capacity Purchase Agreement with Jazz	$ 234	$ 310
Pass-through fuel expense from Jazz	84	113
Pass-through airport user fees from Jazz	54	71
Pass-through other expense from Jazz	5	7
Other expenses from Jazz	2	2
	$ 379	**$ 503**

In addition to the above revenues and expenses with Jazz, Air Canada transfers fuel inventory and subleases certain aircraft to Jazz on a flow through basis, which are reported net on Air Canada's consolidated statement of operations.

4. LONG-TERM DEBT AND CAPITAL LEASES

ACE CONVERTIBLE SENIOR NOTES

In connection with the distributions of units of Aeroplan Income Fund and Jazz Air Income Fund to the shareholders of ACE (Note 10), 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. As a result of the May 24, 2007 distribution the conversion rate was adjusted from 32.5210 to 37.6879, effective June 12, 2007.

All the adjustments described above during 2007 were determined in accordance with the terms of indenture governing the Convertible Notes.

AIR CANADA AIRCRAFT FINANCING

On April 19, 2007, Air Canada received a final commitment for loan guarantee support, subject to the fulfillment of certain terms and conditions, from the Export-Import Bank of the United States ("EXIM") covering seven Boeing 777 aircraft under Air Canada's purchase agreement with Boeing (the "Boeing Purchase Agreement"), to be delivered in 2007. During the nine months ended September 30, 2007 Air Canada took delivery of seven Boeing 777 aircraft, six of which were purchased under the Boeing Purchase Agreement and financed under the loan guarantee support provided by EXIM, the other one being subject to an operating lease agreement with International Lease Finance Corporation ("ILFC"). An eighth Boeing 777 aircraft is expected for delivery in Quarter 4 2007; it will be the final of the seven Boeing 777 aircraft purchased under the Boeing Purchase Agreement and financed under the loan guarantee support provided by EXIM and to be delivered in 2007.

The following table summarizes the loans, which are secured by the delivered aircraft, related to the acquisition of Boeing aircraft financed under the loan guarantee support provided by EXIM:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 3 2007					
Boeing 777	2	5.493%	2019	$ 203	$ 214
Quarter 2 2007					
Boeing 777	4	5.435%	2019	$ 415	$ 441
Total	**6**			**$ 618**	**$ 655**

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

The following table summarizes the principal repayment requirements (in CDN$) of the Boeing aircraft financing obtained during the nine month period ended September 30, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012
Boeing aircraft financing	$ 13	$ 51	$ 51	$ 51	$ 51	$ 51

The following table summarizes the loans, which are secured by the delivered aircraft, that the Corporation drew during the nine month period ended September 30, 2007 to finance the acquisition of Embraer aircraft:

	Number of Aircraft	Interest Rate	Maturity	Original US$ Loan Amount	Original CDN$ Loan Amount
Quarter 3 2007					
Embraer 190	8	7.135%	2019	$ 180	$ 186
Quarter 2 2007					
Embraer 190	4	7.161%	2019	$ 90	$ 96
Quarter 1 2007					
Embraer 190	4	6.813%	2019	$ 90	$ 105
Total	**16**			**$ 360**	**$ 387**

The interest rates above represent the weighted average fixed interest rate on the loans.

The following table summarizes the principal repayment requirements (in CDN$) of the Embraer aircraft financing obtained during the nine month period ended September 30, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012
Embraer aircraft financing	$ 4	$ 16	$ 17	$ 18	$ 21	$ 24

Reduction in Non-controlling Interest

During Quarter 1 2007 Air Canada 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.

5. POST-EMPLOYMENT EXPENSES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Pension benefit expense	$ 34	$ 47	$ 109	$ 138
Other employee future benefit expense	26	28	79	83
	$ 60	**$ 75**	**$ 188**	**$ 221**
Amount charged to Aeroplan	(1)	-	(3)	-
Net pension benefit and other employee benefits expense	**$ 59**	**$ 75**	**$ 185**	**$ 221**

6. 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 September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Beginning of period	$ 53	$ 122	$ 77	$ 144
Interest accretion	1	2	4	7
Amounts disbursed	(10)	(12)	(33)	(39)
Adjustment (see below)	-	(23)	-	(23)
Deconsolidation of Jazz (note 1)	-	-	(4)	-
End of period	44	89	44	89
Current portion	(12)	(32)	(12)	(32)
	$ 32	**$ 57**	**$ 32**	**$ 57**

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 September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Beginning of period	$ 44	$ 43	$ 32	$ 13
Special charge for labour restructuring:				
2007 ACTS workforce reduction	-	-	15	-
2006 non-unionized reduction	-	-	-	33
Charges recorded in wages, salaries and benefits	5	3	16	6
Amounts disbursed	(6)	(4)	(20)	(10)
End of period	43	42	43	42
Current portion	(24)	(32)	(24)	(32)
	$ 19	**$ 10**	**$ 19**	**$ 10**

The Corporation offers severance programs to certain employees from time to time. The cost of these programs is recorded within operating expenses.

During the nine months ended September 30, 2007, under special charges for labour restructuring, a charge of $15 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 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 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 segment recorded a reduction of $8 in Quarter 4 2006 to the special charge for labour restructuring.

7. 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 change in fair value is recorded in non-operating income (expense).

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 Air Canada'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.

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 (expense). 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 (expense).

During Quarter 3 2007, hedge accounting was discontinued for certain fuel hedge contracts where the hedging relationship ceased to satisfy the conditions for hedge accounting. The value of the AOCI balance recognized in connection with these derivatives will be taken into fuel expense upon the maturity of the contracts. During the quarter this amounted to an increase in fuel expense of $4. Air Canada still continues to hold these derivatives as it believes they continue to be good economic hedges in managing its exposure to jet fuel prices.

The following table provides the changes in fair value of derivatives designated under hedge accounting before the impact of tax during the nine month period ended September 30, 2007:

Increase (decrease)	Fair value of outstanding fuel derivatives	OCI / AOCI	Fuel expense	Non-operating income	Retained earnings	Cash on settlement	Fair value of dedesignated derivatives
January 1, 2007	$ (18)	$ (26)	$ -	$ -	$ 8	$ -	$ -
Unrealized period change in fair value	39	9	-	30	-	-	-
Realized period change on maturing contracts	14	8	8	-	-	(14)	-
March 31, 2007	**$ 35**	**$ (9)**	**$ 8**	**$ 30**	**$ 8**	**$ (14)**	**$ -**
Unrealized period change in fair value	6	13	-	(7)	-	-	-
Realized period change on maturing contracts	(5)	3	(3)	(7)	-	4	-
June 30, 2007	**$ 36**	**$ 7**	**$ 5**	**$ 16**	**$ 8**	**$ (10)**	**$ -**
Unrealized period change in fair value	6	15	-	(9)	-	-	-
Realized period change on maturing contracts	(9)	(4)	(8)	(3)	-	10	-
Dedesignation of fuel hedge contracts	(10)	-	-	-	-	-	10
September 30, 2007	**$ 23**	**$ 18**	**$ (3)**	**$ 4**	**$ 8**	**$ -**	**$ 10**

In summary from the table above:

- The fair value of outstanding fuel derivatives under hedge accounting at September 30, 2007 was $23
- The benefit to Fuel expense, as a result of fuel hedge accounting, for the third quarter of 2007 was $8 ($3 for the nine months ended September 30, 2007)
- The Non-operating income (loss) was ($12) for the third quarter of 2007 ($4 for the nine months ended September 30, 2007). The amount in Non-operating income (loss) represents the ineffective portion of the fair value change in items under hedge accounting.

OCI amounts for the three months ended September 30, 2007 are presented net of tax expense of $3 in the Consolidated Statement of Comprehensive Income ($12 for the nine months ended September 30, 2007).

Foreign Exchange Risk Management

Air Canada enters into certain foreign exchange forward contracts or currency swaps to manage the risks associated with foreign currency exchange rates. As at September 30, 2007, Air Canada had entered into foreign currency forward contracts and option agreements on US$2.3 billion of future purchases in 2007, 2008, and 2009. The fair value of these foreign currency contracts as at September 30, 2007 is $159 in favour of the counterparties (December 31, 2006 - $25 in favour of Air Canada on $503 of future purchases in 2007). These derivative instruments have not been designated as hedges for accounting purposes. The unrealized loss has been recorded in foreign exchange.

During Quarter 1 2007, 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.

Asset-Backed Commercial Paper ("ABCP")

Air Canada has $37 ($32 net of a fair value adjustment) in non-bank sponsored ABCP which has been recorded in Deposits and other assets. These investments, which were scheduled to mature during the third quarter 2007, were previously recorded in Cash and cash-equivalents and the transfer to Deposits and other assets is reflected as an investing activity on the Consolidated Statement of Cash Flows. The restructuring deadline for the ABCP has been extended to December 2007. There is uncertainty as to when these investments will settle and the amount of the settlement.

During Quarter 3 2007, Air Canada has recorded a charge of $5 ($3 after tax) in non-operating income (expense). The charge is based on a number of assumptions as to the fair value of the investments including factors such as estimated cash flow scenarios and risk adjusted discount rates. The assumptions used in estimating the fair value of the investments are subject to change, which may result in further adjustments to non-operating results in the future.

8. INCOME TAXES

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

Asset	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Future income tax asset recorded in current assets (a)	$ 491	$ 342	$ 51	$ 584
Future income tax asset (a)	-	24	214	336
	$ 491	**$ 366**	**$ 265**	**$ 920**

Liability	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Current tax payable (b)	$ -	$ -	$ (6)	$ (345)
Long-term tax payable (b)	(10)	-	-	-
Future income tax liability (b)	(68)	(94)	(136)	(136)
	$ (78)	**$ (94)**	**$(142)**	**$ (481)**

a) FUTURE INCOME TAX ASSETS

During Quarter 3 2007, the Corporation has determined that it is more likely than not that certain future income tax assets of $125, which were offset by a valuation allowance, will be realized through a combination of future reversals of temporary differences and taxable income.

During Quarter 2 2007, the Corporation had determined that it is more likely than not that certain future income tax assets of $220, which were offset by a valuation allowance, will be realized through a combination of future reversals of temporary differences and taxable income.

During Quarter 2 2007, the Corporation realized $111 of non-current future income tax assets, through the distribution of Aeroplan units and Jazz units (Note 10).

Miscellaneous adjustments reduced future income tax assets in Quarter 2 2007 by $8.

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

During Quarter 1 2007 the Corporation realized $328 of future income tax assets through the distribution of Aeroplan units (Note 10). In addition, the Corporation realized $40 of future income tax assets through the distribution of Jazz units (Note 10) which had been offset by a valuation allowance.

Miscellaneous adjustments increased future income tax assets in Quarter 1 2007 by $18.

b) TAXES PAYABLE AND FUTURE INCOME TAXES LIABILITY

During Quarter 3 2007, Air Canada recorded a current income tax expense of $10 resulting from the Federal and Ontario harmonization of corporate taxes. Air Canada will have a cash tax payable of $10 that will be payable over a five year period beginning in 2009. This amount is included in Other long-term liabilities.

During Quarter 3 2007, future income tax liabilities declined by $26 due to a reduction in the carrying value of certain intangibles and other assets with indefinite lives. During Quarter 2 2007, future income tax liabilities declined by $42. The reductions in the carrying values resulted from recognition of future income tax assets that existed at fresh start and for which valuation allowance was recorded.

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 segment recorded interest expense of $6 due on the tax balance prior to its recovery. This amount was recorded in Current income taxes on the consolidated statement of operations in Quarter 1.

c) PROVISION FOR INCOME TAXES

Components of the provision for income taxes are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Provision for income taxes before under noted items	$ (133)	$ (66)	$ (198)	$ (139)
Special distribution of Aeroplan units	-	-	(38)	(6)
Special distribution of Jazz units	-	-	(6)	-
Effect of changes in tax elections previously estimated	-	-	(17)	-
Impact of Ontario tax harmonization (Air Canada)	(10)	-	(10)	-
Issue of Jazz units	-	-	-	(10)
Effect of tax rate changes on temporary differences	-	-	12	17
Valuation allowance reversal	19	-	21	-
Interest expense	-	-	(6)	-
Provision for income taxes	**$ (124)**	**$ (66)**	**$ (242)**	**$ (138)**

9. SHARE INFORMATION

The issued and outstanding common shares of ACE as at September 30, 2007, along with potential common shares, are as follows:

Outstanding shares (000)	September 30 2007	December 31 2006
Issued and outstanding		
Class A variable voting shares	81,077	79,499
Class B voting shares	22,388	22,772
Total issued and outstanding	**103,465**	**102,271**
Potential common shares		
Convertible preference shares	11,151	10,747
Convertible notes	12,437	7,354
Stock options	4,250	3,598
Total potential common shares	**27,838**	**21,699**

The information presented in the table above reflects the adjustments to the convertible notes and stock options in connection with the distributions of units of Aeroplan Income Fund and units of Jazz Air Income Fund as described in Note 10.

10. 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 granted 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.

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

On May 11, 2007, ACE announced a third and final distribution under the Plan pursuant to which ACE's shareholders of record on May 24, 2007 were entitled to receive 18 million units of Aeroplan Income Fund, or approximately 0.157 units of Aeroplan Income Fund, and 12 million units of Jazz Air Income Fund units, or approximately 0.105 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 $21.50 per unit of Aeroplan Income Fund and $8.26 per unit of Jazz Air Income Fund on the TSX on May 24, 2007, the value of the distribution was approximately $486 million.

The following table summarizes the units distributed to shareholders during Quarter 2 2007:

Distributions	**May 24, 2007 Aeroplan units distributed**	**May 24, 2007 Jazz units distributed**
Distributed to common shareholders	16,274,237	10,849,492
Distributed to preferred shareholders	1,725,763	1,150,508
	18,000,000	12,000,000

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**
Distributed to common shareholders	45,240,473	18,345,927	22,623,690
Distributed to preferred shareholders	4,759,527	1,926,990	2,376,310
	50,000,000	20,272,917	25,000,000

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

Distributions to Common Shareholders

The distributions to holders of Variable Voting Shares and Voting Shares totaling 79,860,637 units of Aeroplan Income Fund ("Aeroplan units") and 33,473,182 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 Quarter 2, 2007 Aeroplan units distributed, as Aeroplan was an equity investment at the time of distribution, $57 was recorded as a reduction of the negative equity investment in Aeroplan offset by an increase to contributed surplus. The 2007 distributions involved the use of future income tax assets, of which $354 related to the distributions to the common shareholders which was recorded as a reduction in share capital.

Distribution to common shareholders	**Aeroplan units distributed**	**Reduction to share capital due to FIT**
January 10, 2007	45,240,473	$ (192)
March 14, 2007	18,345,927	(82)
May 24, 2007	16,274,237	(80)
	79,860,637	$ (354)

For the Jazz units distributed, $23 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. The 2007 distributions involved the use of future income tax assets, of which $49 related to the distributions to the common shareholders which was recorded as a reduction in share capital. 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**	**Reduction to share capital due to FIT**
March 14, 2007	22,623,690	$ (15)	$ (36)
May 24, 2007	10,849,492	(8)	(13)
	33,473,182	$ (23)	$ (49)

Distributions to Preferred Shareholders

The distributions to preferred shareholders of ACE totaled 8,412,280 Aeroplan units and 3,526,818 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 the nine month period ended September 30, 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)
May 24, 2007	1,725,763	37	43	(6)	-
	8,412,280	$160	$154	$ 6	$ (12)

The Jazz units distributed to preferred shareholders resulted in net interest expense recorded during the nine month period ended September 30, 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	Non-controlling interest
March 14, 2007	2,376,310	$ 21	$ 19	$ 2	$ (2)
May 24, 2007	1,150,508	10	9	1	(1)
	3,526,818	$ 31	$ 28	$ 3	$ (3)

The distributions described above had no cash tax consequences.

In accordance with the terms of the ACE Convertible Senior Notes, the distributions during the nine month period ended September 30, 2007 and return of capital triggered a conversion rate adjustment (Note 4). 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 the nine month period ended September 30, 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, as outlined in the following table:

	Before Adjustment		After Adjustment	
Distribution	Exercise Price	Options Outstanding	Exercise Price	Options Outstanding
January 10, 2007	$26.04	3,570,390	$20.95	4,436,644
March 14, 2007	22.02	3,397,496	18.76	3,989,011
May 24, 2007	18.53	3,854,370	15.98	4,466,744

11. SEGMENT INFORMATION

COMPOSITION OF BUSINESS SEGMENTS

The Corporation has four reportable segments: Air Canada (previously Air Canada Services), Aeroplan (up to March 14, 2007), Jazz (up to May 24, 2007), and ACTS (up to October 16, 2007 - see Note 16).

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 therefore the equity investment income from ACE's investment in Aeroplan prospectively from March 14, 2007 is recorded within CIE. As described in Note 3, on May 24, 2007 the Corporation ceased to consolidate Jazz and the equity investment income from ACE's investment prospectively from May 24, 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 was consolidated related mainly to the revenue recognition timing difference from when Aeroplan records revenues, which is at the time a Mile is redeemed, to the consolidated accounting policy of revenue recognition at the time reward transportation is provided. In addition, within the Aeroplan segment of the ACE consolidated financial statements, Aeroplan revenue from the redemption of Miles is recorded 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.

The Jazz segment, included up to May 24, 2007, is operating under the capacity purchase agreement ("Jazz CPA") with Air Canada.

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.

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

	Three Months Ended September 30, 2007*						Three Months Ended September 30, 2006					
	Air Canada	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**Total ACE**	**Air Canada**	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**Total ACE**
Passenger revenue	$ 2,660	$ -	$ -	$ -	$ -	$ 2,660	$2,552	$ -	$ -	$ -	$ 12	$ 2,564
Cargo revenue	132	-	-	-	-	132	157	-	-	-	-	157
Other revenue	111	-	-	71	48	230	104	176	1	63	(118)	226
External revenue	2,903	-	-	71	48	3,022	2,813	176	1	63	(106)	2,947
Inter-segment revenue	51	-	-	173	(224)	-	48	2	368	138	(556)	-
	2,954	**-**	**-**	**244**	**(176)**	**3,022**	**2,861**	**178**	**369**	**201**	**(662)**	**2,947**
Special charge for Aeroplan miles	-	-	-	-	-	-	(102)	-	-	-	-	(102)
Total revenues	**2,954**	**-**	**-**	**244**	**(176)**	**3,022**	**2,759**	**178**	**369**	**201**	**(662)**	**2,845**
Wages, salaries and benefits	478	-	-	83	(3)	558	461	20	78	82	-	641
Aircraft fuel	716	-	-	-	-	716	761	-	86	1	(86)	762
Aircraft rent	66	-	-	-	-	66	80	-	35	-	(7)	108
Airport and navigation fees	284	-	-	-	-	284	275	-	49	-	(49)	275
Aircraft maintenance, materials and supplies	155	-	-	66	(136)	85	167	-	26	47	(140)	100
Depreciation of property and equipment	132	-	-	2	(2)	132	110	-	5	2	1	118
Amortization of intangible assets	12	-	-	5	(5)	12	14	3	-	3	3	23
Obsolescence provisions	-	-	-	3	-	3	1	-	-	3	-	4
Commissions	54	-	-	-	-	54	61	-	-	-	-	61
Capacity purchase with Jazz	234	-	-	-	-	234	226	-	-	-	(226)	-
Special charge for labour restructuring	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	472	-	-	80	(14)	538	473	122	51	59	(155)	550
Total operating expenses	**2,603**	**-**	**-**	**239**	**(160)**	**2,682**	**2,629**	**145**	**330**	**197**	**(659)**	**2,642**
Operating income (loss)	**351**	**-**	**-**	**5**	**(16)**	**340**	**130**	**33**	**39**	**4**	**(3)**	**203**
Interest income	21	-	-	-	4	25	21	6	2	-	4	33
Interest expense	(82)	-	-	(4)	(10)	(96)	(78)	(4)	(2)	(4)	(6)	(94)
Interest capitalized	24	-	-	-	-	24	17	-	-	-	1	18
Aeroplan equity investment income	-	-	-	-	15	15	-	-	-	-	-	
Jazz equity investment income	-	-	-	-	12	12	-	-	-	-	-	
Gain on sale of US Airways shares	-	-	-	-	4	4	-	-	-	-	52	52
Gain (loss) on disposal of assets	(2)	-	-	-	-	(2)	1	-	-	-	(5)	(4)
Gain (loss) on financial instruments recorded at fair value	(4)	-	-	-	-	(4)	(16)	-	-	-	-	(16)
Other non-operating income (expense)	(2)	-	-	(2)	(1)	(5)	2	(1)	-	2	(4)	(1)
Non-controlling interest	-	-	-	-	(69)	(69)	(1)	-	-	-	(18)	(19)
Foreign exchange gain (loss)	104	-	-	-	-	104	(3)	-	-	(1)	1	(3)
Recovery of (provision for) income taxes	(137)	-	-	-	13	(124)	(29)	-	-	-	(37)	(66)
Segment income (loss)	**$ 273**	**$ -**	**$ -**	**$ (1)**	**$ (48)**	**$ 224**	**$ 44**	**$ 34**	**$ 39**	**$ 1**	**$ (15)**	**$ 103**

Effective March 14, 2007 the results and financial position of Aeroplan and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1). Aeroplan and Jazz equity investment income is recorded within CIE prospectively from March 14, 2007 and May 24, 2007 respectively.

	Nine Months Ended September, 2007*						Nine Months Ended September 30, 2006					
	Air Canada	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**Total ACE**	**Air Canada**	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**Total ACE**
Passenger revenue	$ 7,133	$ -	$ -	$ -	$ 15	$ 7,148	$ 6,816	$ -	$ -	$ -	$ 57	$ 6,873
Cargo revenue	407	-	-	-	-	407	460	-	-	-		460
Other revenue	438	198	3	184	(72)	751	420	554	5	164	(363)	780
External revenue	7,978	198	3	184	(57)	8,306	7,696	554	5	164	(306)	8,113
Inter-segment revenue	155	3	610	571	(1,339)	-	147	7	1,024	463	(1,641)	-
	8,133	**201**	**613**	**755**	**(1,396)**	**8,306**	**7,843**	**561**	**1,029**	**627**	**(1,947)**	**8,113**
Special charge for Aeroplan miles	-	-	-	-	-		(102)	-	-	-	-	(102)
Total revenues	**8,133**	**201**	**613**	**755**	**(1,396)**	**8,306**	**7,741**	**561**	**1,029**	**627**	**(1,947)**	**8,011**
Wages, salaries and benefits	1,452	17	139	259	15	1,882	1,373	58	229	246	13	1,919
Aircraft fuel	1,937	-	125	-	(124)	1,938	1,961	-	216	1	(216)	1,962
Aircraft rent	220	-	57	-	(16)	261	258	-	100	-	(24)	334
Airport and navigation fees	784	-	80	-	(81)	783	750	-	132	-	(132)	750
Aircraft maintenance, materials and supplies	584	-	50	224	(510)	348	563	-	71	178	(465)	347
Depreciation of property and equipment	376	-	9	6	(3)	388	316	-	16	4	2	338
Amortization of intangible assets	31	3	-	15	(5)	44	40	11	-	10	9	70
Obsolescence provisions	1	-	-	9	-	10	2	-	-	9	-	11
Commissions	164	-	-	-	-	164	188	-	-	-	-	188
Capacity purchase with Jazz	696	-	-	-	(386)	310	647	-	-	-	(647)	-
Special charge for labour restructuring	-	-	-	15	-	15	28	-	-	5	-	33
Other operating expenses	1,527	141	91	210	(213)	1,756	1,496	389	154	188	(490)	1,737
Total operating expenses	**7,772**	**161**	**551**	**738**	**(1,323)**	**7,899**	**7,622**	**458**	**918**	**641**	**(1,950)**	**7,689**
Operating income (loss)	**361**	**40**	**62**	**17**	**(73)**	**407**	**119**	**103**	**111**	**(14)**	**3**	**322**
Interest income	70	3	2	-	11	86	58	14	4	-	8	84
Interest expense	(259)	(3)	(3)	(14)	(36)	(315)	(225)	(11)	(6)	(12)	(19)	(273)
Interest capitalized	88	-	-	-	-	88	40	-	(1)	-	1	40
Aeroplan equity investment income	-	-	-	-	35	35	-	-	-	-	-	
Jazz equity investment income	-	-	-	-	19	19	-	-	-	-	-	
Dilution gain - Jazz	-	-	-	-	-	-	-	-	-	-	220	220
Gain on sale of US Airways shares	-	-	-	-	8	8	-	-	-	-	152	152
Gain on disposal of assets	19	-	-	-	-	19	4	-	-	-	(4)	-
Gain (loss) on financial instruments recorded at fair value	24	-	-	-	-	24	(19)	-	-	-	-	(19)
Other non-operating income (expense)	(12)	(1)	1	(2)	8	(6)	3	(1)	-	1	2	5
Non-controlling interest	(6)	-	-	-	(142)	(148)	(9)	-	-	-	(44)	(53)
Foreign exchange gain (loss)	297	-	-	(1)	(1)	295	119	-	-	(1)	(1)	117
Provision for income taxes	(188)	-	-	-	(54)	(242)	(20)	-	-	-	(118)	(138)
Segment income (loss)	**$ 394**	**$ 39**	**$ 62**	**$ -**	**$ (225)**	**$ 270**	**$ 70**	**$ 105**	**$ 108**	**$ (26)**	**$ 200**	**$ 457**

**Effective March 14, 2007 the results and financial position of Aeroplan and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1). Aeroplan and Jazz equity investment income is recorded within CIE prospectively from March 14, 2007 and May 24, 2007 respectively.*

GEOGRAPHIC INFORMATION

Passenger revenues	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Canada	$ 1,140	$ 1,045	$ 3,005	$ 2,801
US Transborder	470	457	1,431	1,404
Atlantic	597	616	1,434	1,435
Pacific	309	310	759	735
Other	144	136	519	498
	$ 2,660	**$ 2,564**	**$ 7,148**	**$ 6,873**

Cargo revenues	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Canada	$ 28	$ 32	$ 79	$ 88
US Transborder	6	6	19	21
Atlantic	51	55	158	164
Pacific	39	55	122	157
Other	8	9	29	30
	$ 132	**$ 157**	**$ 407**	**$ 460**

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

			September 30, 2007*	
	Air Canada	**ACTS**	**CIE***	**Total**
Cash and cash equivalents	$ 792	$ 11	$ 175	$ 978
Short-term investments	710	-	227	937
	$ 1,502	$ 11	$ 402	$ 1,915
Total assets	**$ 11,344**	**$ 607**	**$ 289**	**$ 12,240**

**Effective March 14, 2007 the results and financial position of Aeroplan and effective May 24, 2007 the results and financial position of Jazz are not consolidated within ACE (Note 1).*

**Refer to Note 16 for the impact of subsequent events on CIE's cash and cash equivalents and short term investments.*

					December 31, 2006	
	Air Canada	**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.

US AIRWAYS INVESTMENT

During Quarter 3 the Corporation disposed of the remaining 0.251 million shares of its holding in US Airways (0.5 million shares for the nine months ended September 30, 2007). The net proceeds from the sale transaction amounted to $8 ($16 for the nine months ended September 30, 2007). The Corporation has recorded a pre-tax gain of $4, $3 after tax ($8, $6 after tax for the nine months ended September 30, 2007) and a reduction of AOCI of $4, net of tax ($11, net of tax for the nine months ended September 30, 2007), as a result of this transaction.

AIR CANADA VACATIONS

During Quarter 3 2007, ACE sold its remaining 49% interest in Air Canada Vacations to Air Canada for proceeds of $10, effectively reducing the Corporation's indirect ownership interest in Air Canada Vacations from 87.25% to 75%. Air Canada Vacations is now 100% owned by Air Canada.

DISPOSAL OF PROPERTY

During the Quarter 2 2007, a CRJ-100 aircraft owned by Air Canada and leased to Jazz was damaged beyond repair. As a result of insurance proceeds, Air Canada recorded a gain on disposal of $14 ($10 net of tax) in the second quarter of 2007. During Quarter 3 2007, Air Canada received insurance proceeds of $16 and the remaining $5 of the proceeds is expected to be received during Quarter 4 2007.

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

12. 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, the exchangeable share held by Grupo TACA to be exchanged for a variable number of shares or equity interest in ACTS. Subsequent to the issue of the exchangeable share, ACE agreed to a transfer of Grupo TACA’s rights to a Grupo TACA related party**.** The estimated fair value of this redemption obligation is presented as a liability. Subsequent to September 30, 2007 the exchangeable share was exchanged (Note 16), for a 5% equity stake in New ACTS and $31 cash. The Grupo TACA related party can put its equity in New ACTS to ACE at US$18.4 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. On monetization, New ACTS assumed responsibility for the put option. 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.

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 includes 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 are 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: Aeroman has been determined to be a self-sustaining foreign operation and therefore any changes to foreign exchange affecting the net investment in Aeroman are recorded through OCI, net of nil tax. During Quarter 3 2007, a foreign exchange loss of $4, net of nil tax ($11, net of nil tax, for the nine month period ending September 30, 2007) was recorded.

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

13. COMMITMENTS

During Quarter 2 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 an additional 23 Boeing 787 aircraft. The deliveries of the 37 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 annual combined 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.

The timing of certain planned and committed capital expenditures has changed from that which was disclosed in the December 31, 2006 consolidated financial statements. Based on September 30, 2007 exchange rates and the changes identified above, the revised commitments by year are as follows:

Remainder of year 2007	$ 430
2008	1,359
2009	123
2010	853
2011	947
Thereafter	2,548
	$ 6,260

Final aircraft delivery prices include estimated escalation and deferred price delivery payment interest calculated based on the 90-day USD LIBOR rate at September 30, 2007.

14. CONTINGENCIES

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including Air Canada. Competition authorities have sought or requested information from Air Canada as part of their investigations. Air Canada is cooperating with these investigations which are likely to lead to proceedings against Air Canada and a number of airlines and other cargo operators in certain jurisdictions. 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, but these proceedings may result in liability to Air Canada, which may be material. It is Air Canada's policy to conduct its business in full compliance with all applicable competition laws.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against certain defendants including Porter Airlines Inc. after Jazz was excluded from operating flights from Toronto City Centre (Island) Airport. On October 26, 2007, the defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850 in damages. Air Canada views the defendants' counterclaim as frivolous and without merit.

15. RECONCILIATION OF CANADIAN GAAP TO UNITED STATES GAAP

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which differ in certain respects from accounting principles generally accepted in the United States ("US GAAP"). The following table represents the significant reconciling items between US GAAP and Canadian GAAP. For a complete discussion of US and Canadian GAAP differences, refer to Note 23 to the 2006 annual consolidated financial statements of ACE.

(Canadian dollars – millions except per share data)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Income for the period in accordance with Canadian GAAP	$ 224	$ 103	$ 270	$ 457
Convertible securities (2)	28	(49)	137	4
Derivative financial instruments (3)	11	(100)	52	(14)
Jazz dilution gain	-	-	-	(41)
Distributions (7)	-	-	9	4
Stock-based compensation	(1)	(3)	(3)	(6)
Aircraft leases	(1)	(1)	(3)	(2)
Amortization of intangible assets	(18)	(2)	(21)	(6)
Labour related provisions	-	23	-	23
Post-employment benefits	(4)	-	10	-
Non-controlling interest	2	-	(9)	-
Income adjustments for the period before the following	17	(132)	172	(38)
Income tax adjustment net of non-controlling interest	4	27	34	7
Respective period income adjustments in accordance with US GAAP	21	(105)	206	(31)
Income for the period in accordance with US GAAP	$ 245	$ (2)	$ 476	$ 426
Total comprehensive income for the period in accordance with Canadian GAAP	$ 224	$ 103	$ 272	$ 457
Respective period income adjustments in accordance with US GAAP	21	(105)	206	(31)
Pension adjustment (a) (10)	-	(14)	706	126
Derivative financial instruments (a) (3)	(8)	-	(32)	-
Available-for-sale securities (a) (4)	-	(44)	-	(96)
Total comprehensive income for the period in accordance with US GAAP	$ 237	$ (60)	$ 1,152	$ 456
Earnings per share – US GAAP (12)				
- Basic	$ 2.32	$ (0.06)	$ 4.46	$ 4.05
- Diluted	$ 1.95	$ (0.06)	$ 3.89	$ 3.68

(a) All items in Other Comprehensive Income are shown net of tax.

	September 30 2007	December 31 2006
ACTS assets held for sale		
Balance under Canadian GAAP	$ 489	$ -
Disposal of interest in ACTS (8)	40	-
Balance under US GAAP	$ 529	$ -
Deferred charges		
Balance under Canadian GAAP	$ 51	$ 116
Deferred finance charges (2)	1	(6)
Balance under US GAAP	$ 52	$ 110
Goodwill		
Balance under Canadian GAAP	$ -	$ -
Goodwill (11)	-	675
Balance under US GAAP	$ -	$ 675
Intangible assets		
Balance under Canadian GAAP	$ 596	$ 1,643
Distributions (5,7)	-	4
Goodwill (11)	833	915
Balance under US GAAP	$ 1,429	$ 2,562
Deposits and other assets		
Balance under Canadian GAAP	$ 368	$ 323
Derivative financial instruments (3)	-	(1)
Available-for-sale securities (4)	-	23
Pension asset adjustment (10)	927	91
Deconsolidation of Jazz (6)	(46)	-
Balance under US GAAP	$ 1,249	$ 436
Accounts payable and accrued liabilities		
Balance under Canadian GAAP	$ 1,367	$ 1,547
Derivative financial instruments (3)	-	29
Balance under US GAAP	$ 1,367	$ 1,576
ACTS liabilities held for sale		
Balance under Canadian GAAP	$ 164	$ -
Acquisition of Aeroman (9)	(50)	-
Balance under US GAAP	$ 114	$ -
Long-term debt and capital leases		
Balance under Canadian GAAP	$ 3,696	$ 3,759
Convertible securities (2)	19	17
Balance under US GAAP	$ 3,715	$ 3,776
Convertible preferred shares		
Balance under Canadian GAAP	$ 177	$ 166
Reclassification of convertible preferred shares (2)	(177)	(166)
Balance under US GAAP	$ -	$ -
Future income taxes		
Balance under Canadian GAAP	$ 68	$ 136
Goodwill (11)	127	88
Balance under US GAAP	$ 195	$ 224

	September 30 2007	December 31 2006
Pension and other benefit liabilities		
Balance under Canadian GAAP	$ 1,855	$ 1,876
Additional minimum pension liability adjustment (10)	-	108
Pension liability adjustment (6,10)	137	227
Post-employment benefits	(79)	(69)
Balance under US GAAP	$ 1,913	$ 2,142
Other long-term liabilities		
Balance under Canadian GAAP	$ 592	$ 483
Convertible preferred shares – embedded derivative (2)	73	178
Convertible notes – embedded derivative (2)	46	60
Distributions (7)	39	-
Deconsolidation of Aeroplan (5)	(175)	-
Balance under US GAAP	$ 575	$ 721
Non-controlling interest		
Balance under Canadian GAAP	$ 744	$ 695
Earnings allocation to non-controlling interest	6	-
Acquisition of Aeroman (9)	54	-
Additional non-controlling interest – Jazz	-	41
Additional non-controlling interest – Air Canada	202	202
Balance under US GAAP	$ 1,006	$ 938
Temporary equity		
Balance under Canadian GAAP	$ -	$ -
Reclassification of convertible preferred shares (2)	214	200
Balance under US GAAP	$ 214	$ 200

	September 30 2007	December 31 2006
Shareholders' equity		
Share capital and other equity		
Balance under Canadian GAAP	$ 338	$ 742
Reclassification of convertible preferred shares and convertible notes (2)	(209)	(209)
Future income tax (7)	(49)	(6)
Goodwill recorded at fresh-start (11)	1,596	1,596
Distributions (7)	(3)	-
Labour related provisions	(23)	(23)
Balance of Share capital and other equity under US GAAP	$ 1,650	$ 2,100
Contributed surplus		
Balance under Canadian GAAP	$ 520	$ 25
Deconsolidation of Aeroplan (5)	(262)	-
Distributions (7)	(33)	-
Stock-based compensation	(4)	(6)
Balance of Contributed surplus under US GAAP	$ 221	$ 19
Retained earnings		
Balance under Canadian GAAP	$ 1,085	$ 810
Convertible securities (2)	(52)	(38)
Current year income adjustments	206	(185)
Cumulative prior year adjustments:		
Stock-based compensation	6	13
Future income tax (11)	24	17
Goodwill (11)	(94)	(94)
Intangible asset amortization	(11)	(3)
Derivative financial instruments (3)	(33)	(11)
Post-employment benefits	48	-
Aircraft leases	(3)	-
Distributions	4	-
Labour related provisions	23	-
Jazz dilution gain	(41)	-
Air Canada dilution gain	(202)	-
Convertible securities (2)	(45)	(58)
Balance of Retained earnings under US GAAP	$ 915	$ 451
Accumulated other comprehensive income (loss)		
Balance under Canadian GAAP	$ (5)	$ -
Current year adjustments to comprehensive income:		
Minimum pension liability adjustment (10)	-	74
Pension adjustment (10)	706	-
Derivative financial instruments (3)	(32)	-
Available-for-sale securities (4)	-	(89)
Cumulative prior year adjustments to comprehensive income:		
Minimum pension liability adjustment (10)	(90)	(164)
Pension adjustment (10)	(136)	(136)
Derivative financial instruments (3)	26	-
Available-for-sale securities (4)	-	108
Balance of Accumulated other comprehensive income (loss) under US GAAP	$ 469	$ (207)
Balance of Shareholders' equity under US GAAP	$ 3,255	$ 2,363

1. Accounting for uncertainty in income taxes

Under US GAAP, the Corporation adopted FASB Interpretation No.48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes* on January 1, 2007, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. 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. FIN 48 defines the recognition threshold as more likely than not, meaning greater than 50 percent, to be sustained upon audit by the taxing authorities based solely on the technical merits of the position. If the recognition threshold is met, the tax benefit is measured and recognized as the largest amount of benefit that is in management’s judgment more likely than not to be realized. If the recognition threshold is not met, no benefit can be recognized in the financial statements. The provisions of FIN 48 also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the transitional provisions of the standard, prior periods are not restated for the adoption of this new accounting standard.

The Corporation’s balance of uncertain tax positions was not materially impacted as a result of the adoption of FIN 48. There was no cumulative effect adjustment to the Corporation’s opening retained earnings. However, during the nine months ended September 30, 2007, management determined that a net increase of $35 for income tax reserves was required for tax positions related to prior years. This increase in income tax reserves did not result in any current taxes payable. There was no impact to the consolidated statement of operations for this net increase as the future income tax assets were offset by valuation allowance. The amount of unrecognized tax benefits were $44 at January 1, 2007 and $79 at September 30, 2007.

The unrecognized tax benefits of $44 at January 1, 2007 are for tax positions that are permanent in nature and, if recognized, would reduce the effective tax rate if not for the valuation allowance.

The Corporation recognizes interest expense and penalties related to unrecognized tax benefits within the provision for income tax expense on the statement of operations. No interest expense or penalties related to unrecognized tax benefits were recorded during 2007. As at January 1 and September 30, 2007, the total amount of interest and penalties in relation to uncertain tax positions in the consolidated statement of financial position is nil.

The Corporation files Canadian federal income tax returns and income tax returns in various provincial jurisdictions. In general, the tax years 2003 through 2006 remain subject to examination by Canadian tax authorities.

Based on the outcome of these examinations or as a result of the expiration of statutes of limitation for specific taxing jurisdictions, it is reasonably possible that unrecognized tax positions could change within the next twelve months. However, the Corporation can not currently estimate the range of any possible change.

2. Convertible securities

As described in Note 1 of the Quarter 3 2007 interim unaudited consolidated financial statements of ACE, 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”).

Under Canadian GAAP, 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. Under US GAAP, transaction costs are recorded in deferred charges and are amortized as a component of interest expense.

<u>Preferred Shares</u>

Under Canadian GAAP, the convertible preferred shares issued in 2004 are presented as a compound instrument, with the value ascribed to the holders’ conversion option presented in share capital and other equity less allocated fees and the remaining value ascribed to the financial liability presented as a long-term liability. Under US GAAP, the convertible preferred shares contain an embedded derivative which has been reported separately in Other long-term liabilities at its fair value and the remaining value ascribed to the convertible preferred shares less the direct costs of issuance is included in Temporary equity, as the conditions of redemption are not solely within the control of the Corporation. The adjustment to Deferred charges in 2006 and convertible preferred shares in 2007 reflects applying the direct costs of issuance, recorded in Deferred charges under Canadian GAAP prior to January 1, 2007 and against the convertible preferred shares since January 1, 2007, against the amount recorded in Temporary equity under US GAAP. Under US GAAP, the changes in the fair value of the embedded derivative are included in Income and the accretion of the temporary equity to the redemption value over the period to redemption is reflected as a charge to Retained earnings. The change in the fair value of the embedded derivative includes the 5% accretion. The adjustment to Income reflects the change in fair value of the embedded derivative and the reversal of interest expense under Canadian GAAP and the adjustment to Retained earnings reflects the accretion of the temporary equity to the redemption value.

Convertible Notes

Under Canadian GAAP, the convertible notes issued in April 2005 are presented as a compound instrument with the value ascribed to the holders' conversion option less allocated fees presented in share capital and other equity and the remaining value ascribed to the financial liability presented in Long-term debt. The direct costs of issuance are recorded in deferred charges prior to January 1, 2007 and against the long-term debt since January 1, 2007. Under US GAAP, the convertible notes contain an embedded derivative which has been reported separately in Other long-term liabilities at its fair value and the remaining value ascribed to the financial liability before costs of issuance is presented in Long-term debt. The direct costs of issuance are recorded in Deferred charges. Under US GAAP, the changes in the fair value of the embedded derivative are included in Income. The adjustment reflects the change in fair value of the embedded derivative and the difference in Interest expense.

3. Derivative financial instruments

Derivative instruments are recorded on the consolidated statement of financial position at fair value. 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.

Under Canadian GAAP, 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.

When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to fuel expense during the periods when the variability in the cash flows of the hedged item affects net income.

The adoption of the new Canadian standards (refer to Note 1 of the Quarter 3 2007 interim unaudited consolidated financial statements of ACE) have harmonized the accounting treatment of derivative financial instruments under Canadian and US GAAP.

The Corporation has elected not to designate any derivatives as hedging instruments for US GAAP purposes and as such, the effective portion of the change in the fair value of the hedging derivative under Canadian GAAP is reclassified from OCI to earnings. The transitional adjustment to the new Canadian GAAP standards adopted January 1, 2007 (refer to Note 1 of the Quarter 3 2007 interim unaudited consolidated financial statements of ACE) is reversed under US GAAP.

Prior to January 1, 2007, under Canadian GAAP, derivatives designated in effective cash flow hedges were not recorded on the consolidated statement of financial position. The adjustment reflects recording of the fair value of outstanding derivative contracts that were recorded under hedge accounting under Canadian GAAP to income.

4. Available-for-sale securities

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").

The adoption of the new Canadian standards (refer to Note 1 of the Quarter 3 2007 interim unaudited consolidated financial statements of ACE) have harmonized the accounting treatment of available-for-sale securities under Canadian and US GAAP prospectively from January 1, 2007. The transitional adjustment to the new Canadian GAAP standards adopted January 1, 2007 (refer to Note 1 of the Quarter 3 2007 interim unaudited consolidated financial statements of ACE) is reversed under US GAAP.

Prior to January 1, 2007, under Canadian GAAP, portfolio investments were accounted for using the cost method. Under US GAAP, an unrealized loss of $3 less tax of $1 for the three months ended September 30, 2006 ($30 unrealized gain less tax of $5 for the nine month period ended September 30, 2006) was recorded as a separate component of shareholders' equity and included in other comprehensive income, to reflect the fair value of the US Airways investments held during the year. The fair value of the remaining US Airways investment as at September 30, 2006 was $25. This adjustment is in addition to a decrease in other comprehensive income of $50 less tax of $8 for the three months ended September 30, 2006 ($145 less tax of $24 for the nine month period ended September 30, 2006) to reverse the unrealized gains previously recorded in other comprehensive income, as the gain for the disposal of 1.25 million shares in Quarter 3 2006 and 3.25 million shares in Quarter 2 2006 is realized under Canadian GAAP.

5. Accounting for Aeroplan

Refer to Note 2 of the Quarter 3 2007 interim unaudited consolidated financial statements for a detailed description of the accounting for Aeroplan.

The deconsolidation adjustment under US GAAP is a reduction to goodwill of $226, a reduction to intangible assets of $211, a reduction to contributed surplus of $262 and a reduction to other long-term liabilities of $175.

6. Accounting for Jazz

Refer to Note 3 of the Quarter 3 2007 interim unaudited consolidated financial statements for a detailed description of the accounting for Jazz.

The deconsolidation adjustment under US GAAP is a reduction to non-controlling interest of $41, a reduction to pension and other benefit liabilities of $9, a reduction to intangible assets of $4 and a reduction to deposits and other assets of $46.

7. Distributions of Aeroplan and Jazz units

Refer to Note 10 of the Quarter 3 2007 interim unaudited consolidated financial statements for a detailed description of the distributions of Aeroplan and Jazz units.

<u>Distributions to Preferred Shareholders</u>

Canadian GAAP

Under Canadian GAAP, the distributions to preferred shareholders of ACE 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.

<u>Aeroplan</u>

The Aeroplan units distributed to preferred shareholders resulted in net interest expense of $12 recorded during Quarter 1 2007 and a proportionate reduction to intangible assets of $12 related to fair value adjustments to Aeroplan intangibles that are recorded on consolidation as a result of the dilution of interests.

The Aeroplan units distributed to preferred shareholders resulted in net interest income of $6 recorded during Quarter 2 2007 and a proportionate reduction of the negative equity investment in Aeroplan of $6.

Jazz

The Jazz units distributed to preferred shareholders resulted in net interest expense of $3 recorded ($1 during Quarter 2 2007 and $2 during Quarter 1 2007) and an increase to non-controlling interest of $3 as a result of the dilution of interests.

US GAAP

Under US GAAP, the distributions to preferred shareholders of ACE are considered non-monetary non-reciprocal transfers to owners since the host instrument is classified as temporary equity for accounting purposes. Consistent with the accounting treatment of the distributions for Class A and Class B shareholders, 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.

The adjustment under US GAAP is a reduction to contributed surplus of $39 and an increase to other long-term liabilities of $39.

For the nine months ended September 30, 2007, the adjustment under US GAAP is a reduction to net interest expense of $9 (comprised of a reduction to net interest expense of $6 due to Aeroplan and a reduction to net interest expense of $3 due to Jazz), an increase to contributed surplus of $6, an increase to intangibles assets of $12 (subsequently reclassified to other long-term liabilities refer to item 5 on the Accounting for Aeroplan), and a reduction to share capital and other equity of $3.

Refer to Note 8 of the Quarter 3 2007 interim unaudited consolidated financial statements for the accounting entries relating to future income taxes on the Aeroplan and Jazz units distributed.

For the nine months ended September 30, 2007, the adjustment under US GAAP is a reduction of $43 to future income tax expense and share capital and other equity.

8. Disposal of interest in ACTS

Refer to Note 16 of the Quarter 3 2007 interim unaudited consolidated financial statements for a detailed description of the disposal of interests in ACTS.

To classify ACTS as held for sale under US GAAP, the adjustment is a reduction to intangible assets of $23 (comprised of an increase of $13 due to the Acquisition of Aeroman (refer to item 9) and a reduction of $36 due to the benefit of future income tax assets recognized as a reduction of ACTS intangible assets under Canadian GAAP and as a reduction of goodwill under US GAAP (refer to item 11)), a reduction to goodwill of $17 due to the Acquisition of Aeroman (refer to item 9) and an increase to ACTS assets held for sale of $40.

9. Acquisition of Aeroman

Refer to Note 12 of the Quarter 3 2007 interim unaudited consolidated financial statements for a detailed description of the 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.

Under Canadian GAAP, ACTS LP is considered to have acquired 100% of Aeroman and has recognized a liability for the remaining 20% non-controlling interest. This acquisition has been accounted for under the purchase method and the operations of the acquired entity are consolidated from the date of acquisition.

Under US GAAP, ACTS LP is considered to have acquired an 80% interest in Aeroman and a 20% non-controlling interest.

The adjustment under US GAAP is to reduce to the fair value allocated to the Aeroman identifiable assets by $13 (subsequently reclassified to ACTS assets held for sale - refer to item 8 on the Disposal of interest in

ACTS), recognize a 20% non-controlling interest of $4 and recognize additional goodwill of $17 (subsequently reclassified to ACTS assets held for sale - refer to item 8 on the Disposal of interest in ACTS).

In connection with the acquisition, 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. Under Canadian GAAP, the estimated fair value of this redemption obligation is presented as a liability. Under US GAAP, as the conditions of redemption are not solely within the control of the Corporation, the liability included in ACTS liabilities held for sale of $50 has been reclassified to non-controlling interest.

10. Pension and other benefit plans

Prior to December 31, 2006, US GAAP required the unfunded accumulated benefit obligation to be recorded as additional minimum liability. The excess of the unfunded accumulated benefit obligation over the unrecognized prior service costs was recorded in other comprehensive income. The adjustment resulted in a $138 increase less tax of $64 to other comprehensive income for the change in the additional minimum pension liability from $246 at December 31, 2005 to $108 at December 31, 2006.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R)" ("FAS 158"). FAS 158 requires an employer to (i) recognize the overfunded or underfunded status of a defined benefit plan (other than a multiemployer plan) as an asset or liability with changes in that funded status recognized through comprehensive income; and (ii) measure the funded status of a plan as of the year-end date. Upon adoption of the new statement, ACE adopted a policy of measuring the funded status of the defined benefit pension plan on a semi-annual basis on June 30 and December 31. FAS 158 also specifies additional disclosure requirements. The US GAAP requirement to initially recognize the funded status of a defined benefit plan and to provide the required disclosures was effective as of the end of the fiscal year ending after December 15, 2006.

Under Canadian GAAP, the over or under funded status of defined benefit plans is not recognized in the statement of financial position.

The impact of the adoption of this new statement as at December 31, 2006 resulted in the recognition of an additional liability for the unfunded obligation of $200 for pension plans and $27 for other postretirement plans and a pension asset for the overfunded obligations of $86 for pension plans and $5 for other postretirement plans. The offset of these adjustments resulted in a decrease to accumulated other comprehensive income of $136. The impact of adopting this new statement does not affect reported US GAAP net income.

For the nine months ended September 30, 2007, the adjustment under US GAAP is an increase to other comprehensive income of $706 (net of tax of $318) (comprised of a net gain arising during the period of $703 and a credit of $3 resulting from amortization of net actuarial loss included in net periodic pension cost) for pension plans and nil for other postretirement plans, an increase to other assets of $836 and a reduction to pension and other benefit liabilities of $188.

Due to the deconsolidation of Jazz (refer to item 6 on the Accounting for Jazz), pension and other benefit liabilities of $9 was reclassified to deposits and other assets.

The components of US GAAP net periodic cost of defined benefit plans include the following:

	Three months ended September 30			
	Pension Benefits		Other Benefits	
	2007	**2006**	**2007**	**2006**
Service cost	$ 54	$ 65	$ 16	$ 20
Interest cost	170	160	12	12
Expected return on plan assets	(204)	(185)	-	-
Amortization of prior service cost	-	-	-	-
Amortization of net transition obligation	-	-	-	-
Amortization of experience (gains) losses	-	5	-	(4)
	$ 20	**$ 45**	**$ 28**	**$ 28**
Amount charged to Aeroplan	(1)	**-**	-	**-**
Total	**$ 19**	**$ 45**	**$ 28**	**$ 28**

	Nine months ended September 30			
	Pension Benefits		Other Benefits	
	2007	**2006**	**2007**	**2006**
Service cost	$ 181	$ 193	$ 53	$ 61
Interest cost	497	481	37	36
Expected return on plan assets	(590)	(554)	-	(1)
Amortization of prior service cost	-	-	-	-
Amortization of net transition obligation	-	-	-	-
Amortization of experience (gains) losses	4	13	(22)	(13)
	$ 92	**$ 133**	**$ 68**	**$ 83**
Amount charged to Aeroplan	(2)	**-**	(1)	**-**
Total	**$ 90**	**$ 133**	**$ 67**	**$ 83**

As of September 30, 2007 the Corporation had contributed $307 (which includes a contribution of $4 by Jazz) to its defined benefit pension plans. The Corporation expects to contribute an additional $81 during the remainder of 2007.

11. Fresh start reporting and goodwill

Under Canadian GAAP, upon emergence from creditor protection, the identifiable assets and liabilities of an enterprise are revalued based on the fair values of such assets and liabilities in a manner similar to that used for a business combination. The difference between the fair value of the Corporations' equity over the fair value of the identifiable assets and liabilities is not permitted to be recorded as an asset (goodwill) under Canadian GAAP. US GAAP does not prohibit the recognition of goodwill to the extent that the reorganization value exceeds the fair value of the specific tangible and identifiable intangibles of the Corporation. The resulting goodwill under US GAAP is not amortized and is subject to an impairment test on an annual basis or earlier if an event occurs or circumstances change that would more likely than not reduce the fair value of the respective reporting unit below the carrying amount.

Under Canadian GAAP, the benefit of future income tax assets that exist at fresh start, and for which a valuation allowance is recorded against, will be recognized first to reduce to nil any remaining intangible assets (on a pro-rata basis) that were recorded upon fresh start reporting with any remaining amount as a credit to shareholders' equity. Under US GAAP the benefit of future income tax assets that exist at fresh start will be recognized first to reduce to nil any goodwill, then intangibles with any remaining amount taken to income.

12. Earnings per share

(Canadian dollars – millions except per share data)	Three Months Ended September 30 2007	Three Months Ended September 30 2006	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006
Numerator:				
Numerator for basic earnings per share:				
Income for the year	$ 245	$ (2)	$ 476	$ 426
Accretion of convertible preferred shares (a)	(4)	(4)	(14)	(13)
Adjusted numerator for earnings per share	241	(6)	462	413
Effect of potential dilutive securities:				
Convertible preferred shares (b)	4	4	14	13
Convertible notes (b)	6	6	18	18
Add back anti-dilutive impact	-	(10)	-	-
Adjusted earnings for diluted earnings per share	$ 251	$ (6)	$ 494	$ 444
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	103	102	103	102
Effect of potential dilutive securities:				
Convertible preferred shares	11	1	11	1
Convertible notes	12	11	11	11
Stock options	2	7	2	7
Add back anti-dilutive impact	-	(19)	-	-
Adjusted weighted-average shares for diluted earnings per share	128	102	127	121
Basic earnings per share	$ 2.32	$ (0.06)	$ 4.46	$ 4.05
Diluted earnings per share	$ 1.95	$ (0.06)	$ 3.89	$ 3.68

(a) Income is reduced by the accretion of the convertible preferred shares under US GAAP to obtain income available to common shareholders.

(b) The adjustment to the numerator under US GAAP is different than the adjustment to the numerator under Canadian GAAP due to the difference in the value recorded at inception as described in item 2 and the difference in accretion rates.

13. Future accounting policies

Fair value option
In February 2007, the FASB issued FASB Statement 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"), which permits an entity to measure certain financial assets and financial liabilities at fair value. Under FAS 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions, as long as it is applied to the instrument in its entirety. The Corporation will adopt this standard as of Quarter 1 2008 and is in the process of assessing the impact of adopting this standard on the consolidated financial position and results of operations.

16. SUBSEQUENT EVENTS

DISPOSAL OF INTEREST IN ACTS

On October 16, 2007 ACE completed the sale of a 70% interest in ACTS. On closing, ACE received net cash proceeds of $723. Within 6 months of closing, ACE may receive up to an additional $40 in cash proceeds from funds held in escrow, conditional upon the completion of certain supplier contracts within specified terms. Following the redemption of the exchangeable share issued to a party related to Grupo Taca (Note 12) and the establishment of an initial ACTS Long Term Incentive Plan ("LTIP"), ACE holds a 23% equity interest in the New ACTS.

The assets and liabilities of ACTS, as reported within the consolidated accounts and net of inter-company balances, have been classified as held for sale and are shown separately on the consolidated statement of financial position as at September 30, 2007. All assets and liabilities have been classified as current due to the completion of the sale prior to the release of the Quarter 3, 2007 financial statements. This includes current assets of $489 and current liabilities of $164. The Corporation will maintain significant involvement in the New ACTS following the sale transaction.

ACTS segment income (loss), prior to certain consolidation adjustments related to revenue recognition differences amongst ACE's operating segments, for the three months ended September 30, 2007 and September 30, 2006 was ($1) and $1 respectively. Segment income (loss) for the nine months ended September 30, 2007 and September 30, 2006 was nil and ($26) respectively. Effective October 16, 2007, the results and financial position of ACTS will not be consolidated within ACE and New ACTS equity investment income will be recorded prospectively from October 16, 2007.

DISPOSAL OF AEROPLAN INCOME FUND UNITS

On October 22, 2007 the Corporation completed the secondary offering of 22.0 million trust units of Aeroplan Income Fund at a price of $21.90 per unit, for net proceeds of $463. Immediately following closing of the offering, the Corporation's interest in Aeroplan Income Fund represents 20.1% of units issued and outstanding.

DISPOSAL OF JAZZ AIR INCOME FUND UNITS

On October 22, 2007 the Corporation completed the secondary offering of 35.5 million trust units of Jazz Air Income Fund at a price of $7.75 per unit, for net proceeds of $263. Immediately following closing of the offering, the Corporation's interest in Jazz Air Income Fund represents 20.1% of units issued and outstanding.

CASH POSITION

Following the disposals above, ACE's cash and cash equivalents (excluding Air Canada and ACTS) increased from $0.402 billion to approximately $1.85 billion on October 22, 2007.