ACE AVIATION

Quarter 1 2007
Management's Discussion and Analysis of Results of Operations and Financial Condition

May 10, 2007

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1. PREFACE

ACE Aviation Holdings Inc. ("ACE"), which was incorporated on June 29, 2004, is an investment holding company of various aviation interests including Air Canada Services, Aeroplan Limited Partnership ("Aeroplan or Aeroplan LP"), Jazz Air LP ("Jazz"), ACTS LP ("ACTS") and other investments.

ACE is listed on the Toronto Stock Exchange ("TSX") where its Class A variable voting shares and Class B voting shares are traded under the symbols ACE.A and ACE.B, respectively.

Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") should be read in conjunction with ACE's interim unaudited consolidated financial statements for Quarter 1 2007 and ACE's annual audited consolidated financial statements and notes and its annual MD&A for 2006. Reference to "Corporation" in this MD&A refers to, as the context may require, ACE and its subsidiaries collectively, ACE and one or more of its subsidiaries, one or more of ACE's subsidiaries, or ACE itself. Except where the context otherwise requires, all monetary amounts are stated in Canadian dollars.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a detailed description of the risks affecting the business of ACE and its subsidiaries, see "Risk Factors" in ACE's 2006 annual MD&A dated February 14, 2007 ("AIF").

Unless otherwise noted, this MD&A is current as of May 10, 2007. The ACE Audit, Finance & Risk Committee reviewed this MD&A and the Quarter 1 2007 unaudited consolidated financial statements and notes and ACE's Board of Directors approved these documents prior to their release. For further information on ACE's public disclosure file, including ACE's Annual Information Form, please consult ACE's website at www.aceaviation.com, SEDAR at www.sedar.com or EDGAR at www.sec.gov/edgar.shtml.

2. CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A includes forward-looking statements within the meaning of applicable securities laws. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions.

These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results due to a number of factors, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in the "Risk Factors" section of ACE's 2006 annual MD&A dated February 14, 2007. The forward-looking statements contained in this MD&A represent the Corporation's expectations as of the date of this MD&A and are subject to change after such date. However, the Corporation disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

3. GLOSSARY OF TERMS

EBITDAR — EBITDAR is earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent and is a non-GAAP financial measure;
EBITDA — EBITDA is earnings before interest, taxes, depreciation, amortization and obsolescence and is a non-GAAP financial measure;
Available Seat Miles or ASMs — A measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown;
Jazz CPA — The amended and restated capacity purchase agreement, effective January 1, 2006, between Air Canada and Jazz;
Passenger Load Factor — A measure of passenger capacity utilization derived by expressing Revenue Passenger miles as a percentage of Available Seat Miles;
Passenger Revenue per Available Seat Mile or RASM — Average passenger revenue per ASM;
Revenue Passenger Miles or RPMs — A measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried;
Yield — Average passenger revenue per RPM.

4. INDUSTRY SEGMENTS

ACE's aviation interests are operated through four principal reportable segments. The following is a descriptive listing of these segments and the operating companies therein at March 31, 2007.

Segment	Operating Companies	Ownership
Air Canada Services	Air Canada (TSX: AC.A, AC.B) is Canada's largest domestic and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada - US transborder market and in the international market to and from Canada. AC Cargo Limited Partnership ("Air Canada Cargo") and Air Canada, together, are Canada's largest provider of air cargo services. ACGHS Limited Partnership ("Air Canada Ground Handling") is a passenger and ground handling service provider. Touram Limited Partnership ("Air Canada Vacations") is a major Canadian tour operator offering leisure vacation packages. Air Canada has a 51% ownership in Air Canada Vacations, while ACE holds 49% of Air Canada Vacations or 87.25% at the diluted consolidated level.	75.0 %
Aeroplan	Aeroplan (TSX: AER.UN) is Canada's premier loyalty marketing program. Aeroplan provides its commercial partners with loyalty marketing services designed to stimulate demand for such partners' products and services. ACE's ownership interest in Aeroplan LP is held indirectly through its holdings of Aeroplan Income Fund units. See "Recent Significant Events".	40.1%
Jazz	Jazz (TSX: JAZ.UN) is the largest regional airline and second largest airline in Canada, after Air Canada, based on fleet size and number of routes operated. Jazz operates both domestic and US transborder services for Air Canada under a capacity purchase agreement. ACE's ownership interest in Jazz LP is held indirectly through its holdings of Jazz Air Income Fund units. See "Recent Significant Events".	58.8 %
ACTS	ACTS is a full-service aircraft maintenance, repair and overhaul organization that competes on a global basis. On February 13, 2007, ACTS acquired 80% of Aeromantenimiento, S.A. ("Aeroman"). Consideration for the acquisition included the granting of a right to receive an equity interest in ACTS which is expected to represent less than 7% of the total equity. See "Recent Significant Events".	100.0 %

5. RECENT SIGNIFICANT EVENTS

A number of significant events occurred in Quarter 1 2007. These events are summarized below.

Aeroplan

On January 10, 2007, ACE shareholders received 50,000,000 units of Aeroplan Income Fund representing 0.442 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. For the purpose of the special distribution, ACE exchanged 50 million Aeroplan LP units into 50 million Aeroplan Income Fund units which were distributed to ACE's shareholders on the record date. Based on a closing price of $17.97 per unit of Aeroplan Income Fund on the TSX on January 10, 2007, the distribution was valued at approximately $899 million or $7.95 per ACE share.

On January 10, 2007, ACE exchanged 60 million Aeroplan LP units for 60 million Aeroplan Income Fund units. The exchange was made for internal reorganization purposes.

On March 14, 2007, ACE shareholders received 20,272,917 units of Aeroplan Income Fund representing 0.177 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. For internal reorganization purposes, on March 14, 2007, ACE exchanged its remaining 40,545,835 units of Aeroplan LP into 40,545,835 units of Aeroplan Income Fund. Based on a closing price of $19.40 per unit of Aeroplan Income Fund on the TSX on March 14, 2007, the distribution was valued at approximately $393 million or $3.45 per ACE share.

As at May 10, 2007, ACE holds a 40.1% ownership interest in Aeroplan LP, indirectly through its holding of Aeroplan Income Fund units. Refer to section 6 of this MD&A for information relating to a change in ACE's accounting for its investment in Aeroplan.

Jazz

On March 14, 2007, ACE shareholders received 25,000,000 units of Jazz Air Income Fund representing 0.219 units per variable voting share, voting share and preferred share of ACE (on an as-converted basis). Based on a closing price of $8.60 per unit of Jazz Air Income Fund on the TSX on March 14, 2007, the distribution was valued at approximately $215 million or $1.88 per ACE share. On March 14, 2007, ACE exchanged 25,000,000 units of Jazz Air LP into 25,000,000 units of Jazz Air Income Fund.

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

As at May 10, 2007, ACE holds a 58.8% interest in Jazz Air LP, indirectly through its holding of Jazz Air Income Fund units.

ACTS

On February 13, 2007, ACTS LP, through a wholly-owned subsidiary, acquired 80% of Aeroman, the aircraft maintenance business of Grupo TACA Holdings Limited ("Grupo TACA") of El Salvador. The cash component of $52 million (US$45) million consisted of cash of $50 million (US$43 million) on closing and milestone payments of up to $2 million (US$2 million) in the aggregate, funded by ACTS LP.

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

Refer to Note 11 of ACE's interim consolidated financial statements for additional information.

After completing a strategic review, ACE has determined that the value of the ACTS LP market position and growth prospects could be enhanced by the introduction of a third party investor. The monetization process of ACTS LP, which commenced in late 2006, is expected to be completed in mid-2007.

6. ACCOUNTING POLICIES AND ESTIMATES

ACE's interim unaudited consolidated financial statements and notes for Quarter 1 2007 have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"). The interim unaudited consolidated financial statements contain all adjustments that management believes are necessary for the fair presentation of the Corporation's financial position, results of operations and changes in cash flows. The accounting policies used in preparing the interim unaudited consolidated financial statements are consistent with those disclosed in Note 2 to ACE's 2006 annual audited consolidated financial statements, with the exception of a change in accounting for ACE's investment in Aeroplan and the adoption, on January 1, 2007, of certain accounting policies relating to financial instruments, hedges, comprehensive income and equity. These changes are summarized below and are further described in Note 1 to ACE's Quarter 1 2007 interim unaudited consolidated financial statements.

Accounting for Aeroplan

As a result of the special distribution of Aeroplan Income Fund units on March 14, 2007 and the conversion of its remaining units of Aeroplan LP into units of Aeroplan Income Fund, the Corporation's results and financial position include the consolidation of Aeroplan's operations only up to March 14, 2007. After that date, ACE's investment in Aeroplan is accounted for using the equity method. ACE's consolidated statement of operations for Quarter 1 2007 includes $3 million of equity income from the Aeroplan investment.

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

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

ACE's investment in Aeroplan LP of $(710) million, 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 million. ACE has retained this negative investment of $284 million 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 million.

The Aeroplan cash of $231 million that was removed from ACE's consolidated statement of financial position as a result of the deconsolidation of Aeroplan is classified as a cash outflow from investing activities.

<u>Aeroplan Miles Obligation</u>

In 2001, Air Canada established Aeroplan Limited Partnership as a limited partnership wholly-owned by Air Canada, the Aeroplan loyalty program was previously a division of Air Canada. Under the Commercial Participation and Services Agreement (CPSA) between Air Canada and Aeroplan, Air Canada has a liability related to Aeroplan miles which were issued prior to January 1, 2002. As a result, there is a continuing obligation relating to these miles. Aeroplan assumed responsibility for all miles issued beginning January 1, 2002.

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

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

The Corporation has various related party transactions with Aeroplan subsequent to the change in accounting for ACE's investment in Aeroplan. These transactions, which were previously eliminated on consolidation, are now recorded at the exchange amount. Related party trade balances arise from the provision of services and the allocation of employee costs.

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

($ million)	**March 31, 2007**
Accounts receivable	34
Distribution receivable	6
	40

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

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

Financial Instruments

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

The adopted sections establish standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under these standards, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

With the exception of investment securities classified as available-for-sale and derivatives designated as cash flow hedges, changes in the fair values over the reporting period are reported in net income. The changes in fair values of investment securities classified as available-for-sale and derivatives designated as cash flow hedges are reported in other comprehensive income.

For the derivatives designed under hedge accounting as cash flow hedges, the standards require the effectiveness of the hedging relationships for the reporting period to be quantified. The effective portion of the change in fair value is recognized in other comprehensive income while the ineffective portion is reported in non-operating income. Upon maturity of the fuel derivatives, the effective gains and losses previously recognized in accumulated other comprehensive income ("AOCI") are recorded in fuel expense.

Impact of Changes in Accounting Policies

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

Upon adoption, the Corporation recorded the following transition adjustments to its consolidated statement of financial position.

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

Refer to Note 1 to ACE's interim unaudited Quarter 1 2007 consolidated financial statements for additional information.

Accounting for Uncertainty in Income Taxes (FIN 48)

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

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.

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 consequences of the new standards which may have a material impact on the Corporation's financial statements.

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

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

Employee Future Benefits

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

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

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

7. RESULTS OF OPERATIONS – QUARTER 1 2007

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the three months ended March 31, 2007.

Unaudited			**Quarter 1 2007**			
($ millions)	**Air Canada Services**	**Aeroplan[1]**	**Jazz**	**ACTS**	**CIE**	**ACE Total**
Operating revenue						
Passenger revenue	$ 2,137	$ -	$ -	$ -	$ 15	$ 2,152
Cargo revenue	140	-	-	-	-	140
Other revenue	209	198	2	57	(133)	333
External revenue	2,486	198	2	57	(118)	2,625
Inter-segment revenue	48	3	362	196	(609)	-
	2,534	**201**	**364**	**253**	**(727)**	**2,625**
Operating expenses						
Wages, salary and benefits	499	17	83	86	13	698
Aircraft fuel	585	-	71	-	(71)	585
Aircraft rent	73	-	35	-	(4)	104
Airport user fees	243	-	47	-	(47)	243
Aircraft maintenance, materials, and supplies	224	-	30	79	(197)	136
Communications and information technology	71	7	1	4	(7)	76
Food, beverages and supplies	80	-	4	-	(1)	83
Depreciation, amortization, and obsolescence	128	3	5	9	1	146
Commissions	59	-	-	-	-	59
Capacity purchase fees paid to Jazz	230	-	-	-	(230)	-
Special charge for labour restructuring	-	-	-	9	-	9
Other operating expenses	420	134	52	63	(154)	515
	2,612	**161**	**328**	**250**	**(697)**	**2,654**
Operating income (loss)	**(78)**	**40**	**36**	**3**	**(30)**	**(29)**
Non-operating income (expense)						
Interest income	26	3	1	-	3	33
Interest expense	(91)	(3)	(2)	(5)	(22)	(123)
Interest capitalized	36	-	-	-	-	36
Aeroplan equity investment income	-	-	-	-	3	3
Gain on sale of assets	7	-	-	-	-	7
Gain on financial instruments	34	-	-	-	-	34
Other non-operating income (expense)	(4)	(1)	-	-	5	-
	8	(1)	(1)	(5)	(11)	(10)
Income (loss) before non-controlling	(70)	39	35	(2)	(41)	(39)
Non-controlling interest	(2)	-	-	-	(21)	(23)
Foreign exchange gain	33	-	-	-	-	33
Recovery of (provision for) income taxes	5	-	-	-	(48)	(43)
Income (loss) for the period	**$ (34)**	**$ 39**	**$ 35**	**$ (2)**	**$ (110)**	**$ (72)**
EBITDAR/EBITDA[2]	**123**	**43**	**76**	**12**	**(33)**	**221**
EBITDAR/EBITDA[2] excluding special charges	**123**	**43**	**76**	**21**	**(33)**	**230**

1. *The information reflects Aeroplan results from January 1 to March 13, 2007. Commencing March 14, 2007, ACE is accounting for its investment in Aeroplan under the equity method and, for the period March 14 to March 31, 2007, has recorded equity income from the Aeroplan investment in non-operating income under "Aeroplan equity investment income" within the CIE segment.*
2. *Refer to section 16 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR/EBITDA to operating income (loss) and EBITDAR/EBITDA excluding special charges to operating income (loss).*

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the three months ended March 31, 2006.

Unaudited	**Quarter 1 2006**					
($ millions)	**Air Canada Services**	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**ACE Total**
Operating revenue						
Passenger revenue	$ 2,002	$ -	$ -	$ -	$ 19	$ 2,021
Cargo revenue	151	-	-	-	-	151
Other revenue	195	197	2	46	(128)	312
External revenue	2,348	197	2	46	(109)	2,484
Inter-segment revenue	46	3	318	154	(521)	-
	2,394	**200**	**320**	**200**	**(630)**	**2,484**
Operating expenses						
Wages, salary and benefits	463	18	74	81	6	642
Aircraft fuel	569	-	59	-	(59)	569
Aircraft rent	83	-	32	-	(2)	113
Airport user fees	230	-	40	-	(40)	230
Aircraft maintenance, materials, and supplies	207	-	23	64	(165)	129
Communications and information technology	74	6	2	3	(7)	78
Food, beverages and supplies	76	-	3	-	1	80
Depreciation, amortization, and obsolescence	115	4	4	8	3	134
Commissions	68	-	-	-	-	68
Capacity purchase fees paid to Jazz	206	-	-	-	(206)	-
Special charge for labour restructuring	28	-	-	5	-	33
Other operating expenses	399	133	48	58	(168)	470
	2,518	**161**	**285**	**219**	**(637)**	**2,546**
Operating income (loss)	**(124)**	**39**	**35**	**(19)**	**7**	**(62)**
Non-operating income (expense)						
Interest income	17	4	1	-	-	22
Interest expense	(71)	(3)	(2)	(4)	(8)	(88)
Interest capitalized	10	-	(1)	-	-	9
Dilution gain - Jazz	-	-	-	-	220	220
Gain on sale of assets	2	-	-	-	1	3
Other non-operating income (expense)	2	(1)	-	-	2	3
	(40)	-	(2)	(4)	215	169
Income (loss) before non-controlling	(164)	39	33	(23)	222	107
Non-controlling interest	(4)	-	-	-	(11)	(15)
Foreign exchange gain	13	-	-	-	-	13
Recovery of (provision for) income taxes	29	-	-	-	(16)	13
Income (loss) for the period	**$ (126)**	**$ 39**	**$ 33**	**$ (23)**	**$ 195**	**$ 118**
EBITDAR/EBITDA[(1)]	**74**	**43**	**71**	**(11)**	**8**	**185**
EBITDAR/EBITDA[(1)] excluding special charges	**102**	**43**	**71**	**(6)**	**8**	**218**

1. *Refer to section 16 "Non-GAAP Financial Measures" in this MD&A for a reconciliation of EBITDAR/EBITDA to operating income (loss) and EBITDAR/EBITDA excluding special charges to operating income (loss).*

ACE recorded an operating loss of $29 million in Quarter 1 2007 compared to an operating loss of $62 million in Quarter 1 2006. 2007 results were affected by the change in accounting for ACE's investment in Aeroplan effective March 14, 2007 which had the effect of reducing ACE's consolidated operating income by $8 million and EBITDA by $7 million.

During Quarter 1 2007, a special charge for labour restructuring of $9 million was recorded in the ACTS segment related to a workforce reduction resulting from the termination of a third party heavy maintenance contract. This workforce reduction program is expected to be completed by the end of 2007. During Quarter 1 2006, a special charge of $33 million ($28 million in the Air Canada Services segment and $5 million in the ACTS segment) was recorded relating to a non-unionized workforce reduction plan. During Quarter 4 2006, the estimated cost of this program was revised and, as a result, the Air Canada Services segment recorded a reduction of $8 million to the special charge for labour restructuring. Excluding these special charges, operating results improved $9 million from 2006.

Non-operating expense amounted to $10 million in Quarter 1 2007 compared to non-operating income of $169 million in Quarter 1 2006. In Quarter 1 2007, net interest expense decreased $3 million from the same period in 2006. An increase in interest expense, largely driven by the financing of additional aircraft, was more than offset by interest capitalized relating to the acquisition of Boeing aircraft and growth in interest income due to higher cash balances and higher average interest rates. Included in non-operating income was a gain of $34 million relating to fair value adjustments on certain derivative financial instruments entered into by Air Canada to manage its exposure to changes in fuel prices. Commencing on March 14, 2007, ACE is accounting for its investments in Aeroplan under the equity method and has recorded $3 million in non-operating income during Quarter 1 2007. Quarter 1 2006 included a dilution gain of $220 million ($210 million after tax) related to the Jazz IPO.

Gains from the revaluation of foreign currency monetary items amounted to $33 million in Quarter 1 2007, attributable to a stronger Canadian dollar at March 31, 2007 compared to December 31, 2006. This compared to foreign exchange gains on foreign currency monetary items of $13 million in Quarter 1 2006.

Provisions for income taxes of $43 million were recorded in Quarter 1 2007, mainly related to non-recurring items including the special distributions of Aeroplan and Jazz units. The Corporation is in the process of finalizing certain tax elections. A future tax expense of $17 million was recorded during Quarter 1 2007 as a result of a change to previously estimated elected amounts.

The net loss in Quarter 1 2007 amounted to $72 million or $0.70 per diluted share compared to net income of $118 million or $1.12 per diluted share in Quarter 1 2006. Quarter 1 2006 included a dilution gain of $220 million ($210 million after tax) related to the Jazz IPO.

7.1. Air Canada Services

The Air Canada Services segment reported an operating loss of $78 million in Quarter 1 2007, an improvement of $46 million from the operating loss of $124 million recorded in Quarter 1 2006. EBITDAR increased $49 million over Quarter 1 2006. In Quarter 1 2006, the Air Canada Services segment recorded special charges for labour restructuring of $28 million. Excluding the special charges for labour restructuring in 2006, EBITDAR increased $21 million over Quarter 1 2006.

Passenger revenues in Quarter 1 2007 increased $135 million or 7% over Quarter 1 2006, reflecting traffic and yield improvements due to stronger market demand and increased fuel surcharges implemented in 2006. Effective January 1, 2007, certain ancillary passenger fees, such as change fees, seat selection fees and unaccompanied minor fees, which were previously included in "other" revenues, are included in "passenger" revenues. These ancillary passenger fees amounted to $11 million in Quarter 1 2007. In Quarter 1 2007, traffic grew 5% on a capacity increase of 3% over Quarter 1 2006, resulting in a passenger load factor increase of 1.5 percentage points.

In Quarter 1 2007, cargo revenues declined $11 million or 7% from Quarter 1 2006, mainly as a result of reduced freighter flying to Asia. System cargo traffic was down 11% while cargo yield per revenue ton mile improved 5% in part due to the effect of stronger foreign currencies on international revenues. Reduced freighter flying to Asia was the main reason for the revenue decline. In Quarter 1 2007, two chartered MD-11 freighters were operated as compared to three MD-11 freighters in Quarter 1 2006.

In Quarter 1 2007, other external revenues increased $14 million or 7% over the same period in 2006, largely the result of an increase in sales of ground packages by Air Canada Vacations partly offset by the reclassification of certain ancillary passenger fees, such as change fees, seat selection fees and unaccompanied minor fees, to "passenger" revenues effective January 1, 2007.

In Quarter 1 2007, operating expenses rose $94 million or 4% over the corresponding period in 2006. Unit cost, as measured by operating expense per ASM, increased 1% over Quarter 1 2006, largely driven by wages and salaries, capacity purchase fees paid to Jazz and aircraft maintenance, materials and supplies. Excluding fuel expense and the special charge for labour restructuring of $28 million recorded in Quarter 1 2006, unit cost increased 2% over the same period in 2006.

Wages and salaries expense totaled $381 million in Quarter 1 2007, an increase of $33 million or 9% from Quarter 1 2006 largely due to higher average wages, increased overtime expenses of $6 million, which were in part weather-related, and expenses related to performance-based incentive plans in 2007. Partly offsetting these increases was a reduction of an average of 501 full-time equivalent ("FTE") employees or 2% over Quarter 1 2006. The higher average wages were largely attributable to arbitrated and negotiated average wage increases of approximately 1.5% and salary progression based on additional seniority. In addition, seniority-based and other staff reductions increased the proportion of employees in 2007 at the senior end of the wage scale versus 2006 resulting in an increase from Quarter 1 2006 to Quarter 1 2007 in the average salary per FTE.

Fuel expense increased $16 million or 3% in Quarter 1 2007, mainly due to an ASM capacity increase of 3% over Quarter 1 2006. Fuel expense on a unit cost basis was unchanged from Quarter 1 2006. The volume-related increase of $25 million was partly offset by a $3 million decrease due to a reduction in MD-11 freighter operations. Increased realized hedging losses and a slightly weaker Canadian dollar versus the US dollar added additional fuel expenses of $5 million and $3 million, respectively. Refer to section 10 of this MD&A for information on the Corporation's reporting of fuel hedging derivative instruments. These increases were partly offset by a decrease of 2% in the average base fuel price which reduced fuel expense by $14 million.

Ownership costs, comprised of aircraft rent, depreciation, amortization and obsolescence expenses, increased $3 million in Quarter 1 2007. Factors in the increase were: the addition of 15 Embraer aircraft to Air Canada's operating fleet; depreciation expense related to the aircraft interior refurbishment program; and the reclassification of certain operating leases to capital leases. Largely offsetting these increases were: the reduction to two chartered MD-11 freighters operating in Quarter 1 2007 as compared to three MD-11 freighters in Quarter 1 2006; the effect of aircraft returns and lease terminations; the transfer of CRJ-100 aircraft to Jazz in 2006, which shifts the ownership cost to the capacity purchase expense category; and a decrease in amortization expense for intangible assets.

Airport and navigation fees increased $13 million or 6% in Quarter 1 2007, mainly due to an increase of 6% in aircraft departures and increased rates for landing and general terminal fees, primarily at Toronto's Pearson International Airport.

Aircraft maintenance, materials and supplies increased $17 million or 8% over Quarter 1 2006 due to an increase in Airbus narrow-body maintenance costs, primarily as a result of the Airbus A320 aircraft which are currently in a work cycle which requires replacement of engine life limited parts. Higher maintenance expenses related to satisfying minimum return conditions on aircraft leases and provisions for future return to lessor expenses on short-term leases were also significant factors in the increase. Reduced Boeing 767 engine activity partly offset these increases. Air Canada expects increases in aircraft maintenance, materials and supplies expenses in Quarter 2 2007 primarily as a result of satisfying the conditions on a number of aircraft leases scheduled for return to lessor. Aircraft maintenance expenses for the second half of 2007 are expected to track close to 2006 levels.

Commission expense decreased $9 million or 13% in Quarter 1 2007 on combined passenger and cargo revenue growth of 6% over Quarter 1 2006. The decrease in commission expense was mainly driven by the impact of a new commission structure at Air Canada Vacations in 2007and by commercial initiatives implemented by Air Canada to lower commission costs, which more than offset the volume-related increase. Commissions, as a percent of passenger and cargo revenues, declined to 2.6% in Quarter 1 2007 from 3.2% in Quarter 1 2006.

Other operating expense increased $22 million or 6% in Quarter 1 2007 largely due to a growth in expenses related to ground packages as a result of higher passenger volumes at Air Canada Vacations.
In Quarter 1 2007, capacity purchase fees paid to Jazz, pursuant to the Jazz CPA, amounted to $230 million compared to capacity fees paid to Jazz of $206 million in Quarter 1 2006. The 12% increase was mainly driven by a growth of six covered aircraft in Jazz's operating fleet, five of them transferred from Air Canada to Jazz, resulting in a 12% increase in block hours over Quarter 1 2006. ASM capacity for flights operated by Jazz increased 13% over Quarter 1 2006.

Non-operating income amounted to $8 million in Quarter 1 2007 compared to non-operating expense of $40 million for Quarter 1 2006. In Quarter 1 2007, net interest expense decreased $15 million. A $20 million increase in interest expense, largely driven by the financing of additional aircraft, was more than offset by a higher amount of capitalized interest relating to the acquisition of the Boeing 777 and 787 aircraft and growth in interest income due to higher cash balances and higher average interest rates. In Quarter 1 2007, the Air Canada Services segment recorded gains of $7 million pertaining to the sale of one real estate property and to the sale of parked aircraft. Included in non-operating income in Quarter 1 2007 was a $34 million gain relating to fair value adjustments on certain derivative instruments entered into by Air Canada to manage its exposure to changes in fuel prices.

Gains from the revaluation of foreign currency monetary items amounted to $33 million in Quarter 1 2007, attributable to a stronger Canadian dollar at March 31, 2007 compared to December 31, 2006. This compared to gains of $13 million in Quarter 1 2006.

A segment loss of $34 million was recorded in Quarter 1 2007 compared to a segment loss of $126 million in Quarter 1 2006, a $92 million improvement.

7.2. Aeroplan

As discussed in section 6 "Accounting Policies and Estimates" of this MD&A, ACE's results from operations include the consolidation of Aeroplan LP's operations up to March 14, 2007. After that date, Aeroplan is accounted for using the equity method. On this accounting basis, within the Aeroplan segment, ACE recorded operating income of $40 million and income for the period of $39 million. The following discussion is based on Aeroplan's Quarter 1 2007 published results.

Aeroplan recorded operating income of $48 million in Quarter 1 2007, an increase of $9 million over Quarter 1 2006. EBITDA improved $8 million over Quarter 1 2006. The improvement in operating income and EBITDA was mainly driven by a 19% growth in miles redeemed as a result of higher redemption activity.

Operating revenues in Quarter 1 2007 were up $45 million or 23%, primarily attributable to higher redemption activity and to higher cumulative average revenue recognized per Aeroplan mile, and an increase of $3 million in breakage revenues.

Total operating expenses rose by $36 million or 22% in Quarter 1 2007, largely due to an increase of $30 million in the cost of rewards, resulting from increased redemptions. Other operating expenses excluding the cost of rewards, increased $6 million over Quarter 1 2006 due to higher technology costs related to the maintenance and support of systems deployed into service in late 2006, increased compensation costs and professional, advisory and public company costs and higher advertising and promotion costs as a result of promotional activities related to launch campaigns.

Segment income of $50 million was recorded by Aeroplan in Quarter 1 2007, an improvement of $39 million over Quarter 1 2006.

7.3. Jazz

The Jazz segment reported operating income of $36 million in Quarter 1 2007, an improvement of $1 million from the operating income of $35 million recorded in Quarter 1 2006. EBITDAR increased $5 million over Quarter 1 2006, mainly due to a 13% increase in ASM capacity.

In Quarter 1 2007, operating revenues increased $44 million or 14% over Quarter 1 2006, reflecting a growth of six covered aircraft in Jazz's operating fleet, five of them transferred from Air Canada to Jazz, resulting in a

12% increase in the block hours flown, as well as a 19% increase in pass-through costs charged to Air Canada under the Jazz CPA.

In Quarter 1 2007, operating expenses rose $43 million or 15% over the corresponding period in 2006. Increased pass-through costs under the Jazz CPA, which include aircraft fuel, airport and navigation fees, certain terminal handling and other expenses, represented $21 million of the total increase in operating expenses while increases in controllable costs reflected the remainder of the increase. Unit cost, as measured by operating expense per ASM, increased 4% over Quarter 1 2006. The unit cost increase is reflective of a change in fleet mix. Excluding fuel expense, unit cost in Quarter 1 2007 was unchanged from the corresponding period in 2006.

Segment income of $35 million was recorded in Quarter 1 2007 compared to segment income of $33 million in Quarter 1 2006, a $2 million improvement.

7.4. ACTS

As a result of the acquisition of Aeroman on February 13, 2007, ACTS' results include the consolidation of Aeroman's operations after that date. The impact on ACTS' results was an additional $1 million of operating income.

Excluding special charges, ACTS recorded EBITDA of $21 million in Quarter 1 2007, an improvement of $27 million from Quarter 1 2006. Operating income amounted to $3 million in Quarter 1 2007, an improvement of $22 million from Quarter 1 2006. The Quarter 1 2007 operating results included a special charge of $9 million related to a workforce reduction announced as a result of the termination of a third party heavy maintenance contract. The Quarter 1 2006 operating results included $11 million of non-recurring special charges comprised of special labour charges of $5 million and unfavourable adjustments of $6 million which are reflected in the aircraft maintenance materials and supplies expense category. Operating income excluding these special charges amounted $12 million in Quarter 1 2007 compared to an operating loss of $8 million in Quarter 1 2006. The improvement of $20 million was the result of revenue growth and operating efficiencies.

Operating revenues of $253 million were up $53 million over Quarter 1 2006, reflecting growth across all customer segments as well as additional revenues from Aeroman's operations of $7 million. The increase in revenues, particularly the third party customer growth, reflected a shift from heavy maintenance to the more profitable engine and component maintenance activities.

In Quarter 1 2007, operating expenses increased $31 million over the same period in 2006 consistent with the increase in revenues. Through a focus on operating efficiencies and cost controls, the operations significantly reduced cost to revenue ratios from 2006 levels.

A segment loss of $2 million was recorded in Quarter 1 2007, an improvement of $21 million from the same period in 2006.

7.5. Corporate Items and Eliminations ("CIE")

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

As a result of the change in the accounting for ACE's investment in Aeroplan, certain consolidation adjustments relating to Aeroplan were no longer recorded in CIE effective March 14, 2007.

As discussed in section 6 of this MD&A, effective March 14, 2007, ACE's investment in Aeroplan is accounted for using the equity method. The consolidated statement of operations for Quarter 1 2007 includes $3 million of equity income from ACE's investment in Aeroplan.

Refer to Note 10 to ACE's interim unaudited consolidated financial statements for additional information.

8. FINANCIAL AND CAPITAL MANAGEMENT

The following table summarizes the consolidated statement of financial position of ACE as at March 31, 2007 and December 31, 2006.

Condensed Consolidated Statement of Financial Position ($ millions)	**March 31, 2007**	**December 31, 2006**
Assets		
Cash, cash equivalents and short-term investments	2,430	3,178
Other current assets	1,292	1,856
Current assets	3,722	5,034
Property and equipment	6,262	5,989
Intangible assets	1,267	1,643
Other assets	682	775
	11,933	**13,441**
Liabilities		
Current liabilities	3,232	3,948
Long-term debt and capital leases obligations	3,543	3,759
Pension and other benefits liabilities	1,814	1,876
Other long-term liabilities	1,030	1,586
	9,619	**11,169**
Non-controlling interest	**671**	**695**
Shareholders' equity	**1,643**	**1,577**
	11,933	**13,441**

8.1. Analysis of Financial Position

Cash, cash equivalents and short-term investments

At March 31, 2007, cash, cash equivalents and short-term investments amounted to $2,430 million, a decrease of $748 million from December 31, 2006, primarily reflecting the exclusion of Aeroplan's cash, cash equivalents and short-term investments which amounted to $644 million at March 31, 2007. At March 31, 2007, ACE's cash, cash equivalents and short-term investments totaled $327 million.

Other assets and liabilities

At March 31, 2007, other assets and liabilities were largely impacted by the change in accounting for ACE's investment in Aeroplan and the adoption of new CICA accounting standards relating to financial instruments on January 1, 2007. Refer to section 6 of this MD&A. for additional information on the change in accounting for ACE's investment in Aeroplan and for the adoption of these new accountings standards.

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 million was created in 2006. This tax payable arose from a transaction to transfer tax assets from Air Canada to ACE. This tax payable was recovered from Air Canada's future income tax assets during Quarter 1 2007. Refer to Note 7 to ACE's interim unaudited consolidated financial statements for additional information. As a result of the distributions of units of Aeroplan Income Fund and units of Jazz Air Income Fund, a future income tax expense of $309 million was recorded in shareholders' equity. Refer to Note 9 to ACE's interim unaudited consolidated financial statements for additional information.

8.2. Share Information

At March 31, 2007 and at December 31, 2006, the issued and outstanding common shares of ACE, along with common shares potentially issuable, pursuant to convertible preferred shares, convertible notes and stock options were as follows:

Number of shares (000)	At March 31, 2007	At December 31, 2006
Issued and outstanding common shares		
Class A variable voting shares	80,458	79,499
Class B voting shares	22,879	22,772
Total issued and outstanding common shares	**103,337**	**102,271**
Common shares potentially issuable		
Convertible preferred shares	10,878	10,747
Convertible notes	10,732	7,354
Stock options	3,989	3,598
Total common shares potentially issuable	**25,599**	**21,699**
Total outstanding and potentially issuable common shares	**128,936**	**123,970**

In connection with the distribution of units of Aeroplan Income Fund and Jazz Air Income Fund to the shareholders of ACE, 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 was adjusted. This change in the conversion rate did not have any accounting consequences.

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 distributions, the conversion rate was adjusted from 27.6987 to 32.5210, effective March 31, 2007. Both adjustments were determined in accordance with the terms of indenture governing the Convertible Notes.

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

8.3. Liquidity and Working Capital

The Corporation maintains considerable liquidity in cash and short-term investments along with access to additional funds under various credit facilities. At March 31, 2007, Air Canada and Jazz had unused credit facilities of $400 million and $35 million, respectively.

8.4. Consolidated Cash flows

Cash flows from operations decreased $81 million in Quarter 1 2007, primarily as a result of higher pension funding of $45 million and unfavourable variances in working capital items affecting cash, mainly related to the timing of fuel inventory purchases, partly offset by improved operating results on a cash basis.

Aircraft-related borrowings for Air Canada amounted to $112 million in Quarter 1 2007 and related mainly to the delivery of four Embraer aircraft in Quarter 1 2007. Scheduled and other debt and capital lease payments in Quarter 1 2007 amounted to $78 million. Reduction of non-controlling interest of $36 million in Quarter 1 2007 was related to the refinancing of five CRJ aircraft leases.

The Aeroplan cash of $231 million that was removed from ACE's consolidated statement of financial position is classified as a cash outflow from investing activities.

Cash flows used for investing included cash payments of $53 million in connection with the acquisition of Aeroman and proceeds of $42 million from the sale of an Air Canada real estate property.

Additions to capital assets, mainly related to the Air Canada Services segment, totaled $401 million in Quarter 1 2007. Included in this amount were $159 million for the purchase of one Boeing 777 aircraft, $134 million for the purchase of four Embraer aircraft and $49 million related to the aircraft interior refurbishment program and other aircraft betterments.

8.5. Capital Expenditures

Details on ACE's planned and committed capital expenditures are provided in section 9.6 of ACE's 2006 annual MD&A dated February 14, 2007.

On April 23, 2007, Air Canada amended agreements with Boeing to increase its firm orders for Boeing 787 aircraft from 14 to 37. In addition, the parties agreed to reduce the firm orders of Boeing 777 aircraft by two scheduled for delivery in 2009. The deliveries of the 37 firm aircraft are scheduled to commence in 2010 and be completed by 2014. In addition, these amendments also provide for an additional 23 Boeing 787 option aircraft, for a total of up to 60 Boeing 787 aircraft.

In conjunction with the amended agreements with Boeing, Air Canada received additional financing commitments from Boeing for an additional seven Boeing 787 aircraft on the same terms and conditions as previously disclosed. Should Air Canada not utilize any of the previously disclosed financing commitments on the Boeing 777 aircraft, the financing commitments for the Boeing 787 aircraft will be increased to 31 of which the terms of 28 would be revised such that 80% of the aircraft delivery price would be covered and the term to maturity would be reduced to 12 years from 15 years, with straight-line principal repayments over the term to maturity.

On April 19, 2007, Air Canada received a commitment for loan guarantee support, subject to the fulfillment of certain terms and conditions, from the Export-Import Bank of the United States covering the first seven Boeing 777 aircraft, including the first two aircraft delivered in March and April 2007, respectively. The remaining five supported Boeing 777 aircraft are scheduled for delivery in 2007. The commitment for loan guarantee support covers a 12-year loan term for approximately 80% of the aircraft delivery price at an interest rate of approximately 5.35% based on interest rates as at March 31, 2007. Air Canada has also received a preliminary commitment from EXIM for the remaining Boeing 777 aircraft which are scheduled to be delivered in 2008 and 14 Boeing 787 aircraft which are scheduled to be delivered in 2010 and 2011.

The impact of the amendments by year on committed capital expenditures and financing from the amounts disclosed in ACE's 2006 annual MD&A dated February 14, 2007 is as follows:

Air Canada Services[(1)] **($ million)**	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter[(2)]**
Increase (decrease) in total committed expenditures	30	(10)	(317)	78	285	3,052
Decrease (increase) in committed financing on on committed expenditures	51	-	299	-	(122)	(748)
Increase (decrease) in total committed expenditures, net of financing	81	(10)	(18)	78	163	2,304

1. *US dollar amounts are converted using the March 31, 2007 noon day rate of $1.1529. Final aircraft delivery prices include estimated escalation and deferred price delivery payment interest calculated based on the 90-day USD LIBOR rate at December 31, 2007.*
2. *As described above, the additional committed financing is for an additional seven Boeing 787 aircraft. Should Air Canada not use the financing available from Boeing and the engine manufacturer for all the Boeing 777 aircraft, the number of aircraft with committed financing will increase to a total of 31 on terms described above. As the delivery period approaches, Management expects to enter into financing commitments for the remaining firm deliveries.*

There were no other material changes to capital expenditures that were outside the ordinary course of business.

8.6. Air Canada Fuel Risk Management

In order to manage the airline's exposure to the volatility of jet fuel prices, Air Canada has hedged a portion of its 2007 anticipated jet fuel requirements using mostly swap and collar option structures.

As at March 31, 2007, Air Canada had hedged 39% of the remainder of its projected fuel requirement for 2007 and 3% of its projected fuel requirement for 2008. The remainder of 2007 is hedged at prices that can fluctuate between an average of US$82 to US$86 per barrel for jet-fuel based contracts, an average of US$73 to US$81 per barrel for its heating oil-based contracts and an average of US$58 to US$69 per barrel for its WTI crude oil-based contracts. Air Canada has hedged its projected fuel requirements for 2007 as follows: 43% for Quarter 2, 35% for Quarter 3 and 38% for Quarter 4. At May 10, 2007, Air Canada's hedging positions remained essentially unchanged from its hedging positions at March 31, 2007.

Refer to section 10 of this MD&A for information on the Corporation's reporting of fuel hedging derivative instruments.

9. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results for ACE for the eight most recent quarters.

($ millions, except per share amounts)	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007[2]
Operating revenues	2,458	2,833	2,362	2,484	2,682	2,947	2,544	2,625
Special charge for Aeroplan miles[1]	-	-	-	-	-	(102)	-	-
Operating revenues	**2,458**	**2,833**	**2,362**	**2,484**	**2,682**	**2,845**	**2,544**	**2,625**
Operating expenses	(2,280)	(2,512)	(2,396)	(2,546)	(2,501)	(2,642)	(2,471)	(2,654)
Operating income (loss)[3]	**178**	**321**	**(34)**	**(62)**	**181**	**203**	**73**	**(29)**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax [4]	(9)	(50)	(68)	180	55	(100)	(122)	(43)
Net income (loss)	**169**	**271**	**(102)**	**118**	**236**	**103**	**(49)**	**(72)**
Earnings (loss)								
Per share – basic	**1.68**	**2.67**	**(1.01)**	**1.15**	**2.32**	**1.01**	**(0.48)**	**(0.70)**
Per share – diluted	**1.50**	**2.33**	**(1.01)**	**1.12**	**2.05**	**0.95**	**(0.48)**	**(0.70)**

1. *Quarter 3 2006 includes a special charge of $102 million in connection with Air Canada's obligations for the redemption of pre-2002 Aeroplan miles.*
2. *ACE ceased consolidating Aeroplan's results effective March 14, 2007.*
3. *Quarter 1 2006 includes a special charge for labour restructuring of $33 million. Quarter 4 2006 includes a $8 million reduction to the special charge for labour due to the favourable impact of attrition and other factors which reduced the cost of achieving the target to $25 million. Quarter 1 2007 includes a special charge for labour restructuring of $9 million.*
4. *Quarter 2 2005 includes a dilution gain of $190 million and a tax provision of $28 million as a result of ACE's IPO of Aeroplan Income Fund. Quarter 1 2006 includes a dilution gain of $220 million and a tax provision of $10 million as a result of ACE's IPO of Jazz Air Income Fund. Quarter 2 2006 includes a gain of $100 million and a tax provision of $17 million relating to the sale of 3.25 million shares of its holdings in US Airways. Quarter 3 2006 includes a gain of $52 million and a tax provision of $9 million relating to the sale of 1.25 million shares of its holdings in US Airways. Quarter 4 2006 includes a dilution gain of $25 million and a tax expense of $4 million related to the Air Canada initial public offering.*

Seasonality

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

10. DERIVATIVES AND FINANCIAL INSTRUMENTS

The Corporation manages its exposure to changes in interest rates, foreign exchange rates and jet fuel prices through the use of various derivative financial instruments.

Fuel Price Risk Management
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. As at March 31, 2007, Air Canada had mainly collar options and swap structures in place to hedge a portion of its anticipated jet fuel requirement over the 2007 and 2008 periods. Since jet fuel is not traded on an organized futures exchange, liquidity for hedging this commodity is relatively limited in the long-term. Crude oil and heating oil are other commodities that are used by Air Canada for hedging its exposure to jet fuel price volatility. Air Canada does not purchase or hold any derivative financial instruments for trading purposes. Refer to section 8.6 of this MD&A for Air Canada's hedging position as at March 31, 2007 and as at May 10, 2007.

Air Canada elects to apply hedge accounting and designates its fuel derivatives as cash flow hedges as prescribed under CICA accounting section 3865, Hedges. Under hedge accounting, effective portions of gains or losses on fuel hedging contracts are recognized in aircraft fuel expense when the underlying jet fuel being hedged is consumed. Under Air Canada's current fuel hedging policy, effectiveness is defined as the extent to which changes in the intrinsic value of the hedging instrument offset the changes in the intrinsic value of the hedged item. Air Canada assesses whether the hedges are highly effective both at the inception of each hedge and on an on-going basis. As a result of the effectiveness assessment made at March 31, 2007, Air Canada's fuel hedge contracts were and are expected to continue to be effective in helping offset changes in cash flows.

Commencing January 1, 2007, designated hedging items are presented on the statement of financial position at fair value and all periodic changes in their fair value that are considered effective are recorded in Accumulated Other Comprehensive Income ("AOCI") until the underlying jet fuel is consumed. Upon maturity of the fuel derivatives, the effective gains and losses previously recorded in AOCI are recorded in fuel expense. The ineffective portion of the periodic change in fair value is recorded in non-operating income (expense).

Air Canada is exposed to the risk that periodic changes in fair value will not be perfectly effective. As defined by Air Canada's fuel hedging policy, ineffectiveness results when the change in the derivative's fair value does not perfectly offset the change in the intrinsic value of the anticipated jet fuel purchase. The ineffective portion relating to the change in the derivative intrinsic value is calculated by comparing it to the change in intrinsic value of a proxy perfect hedge based on Air Canada jet fuel 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 has been recorded as ineffective. Management is considering amending its fuel hedging policy on future designated hedging relationships to include fair value components to reduce the occurrence of hedge ineffectiveness.

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

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

The net fair value of derivatives maturing during Quarter 1 2007 that were settled with counterparties was $14 million in favour of counterparties. A charge of $8 million was recorded in fuel expense representing the effective portion of the net fair value, consisting of $7 million, net of nil tax, that was recorded within AOCI as at January 1, 2007 and $1 million, net of nil tax, for the period change in fair value during Quarter 1 2007. As at January 1, 2007, a charge of $6 million was recorded in retained earnings pertaining to the ineffective portion of the derivatives settled during Quarter 1 2007.

As at March 31, 2007, the fair value of Air Canada's outstanding fuel derivative instruments under hedge accounting was $35 million in favour of Air Canada ($18 million in favour of counterparties as at December 31, 2006). During Quarter 1, 2007, the change in fair value of outstanding derivatives under hedge accounting resulted in an unrealized gain of $39 million of which $6 million, net of tax of $3 million, was recorded in AOCI and $30 million in other non-operating expense.

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

The change in fair value of outstanding derivative instruments is recorded at each reporting period and, due to the accounting basis of measuring, it is expected that there will be continued variability recorded in the consolidated statements of operations and comprehensive income. This is due to small differences in correlation of crude oil related commodities and Air Canada's weighted average jet fuel cost being leveraged over large dollar volumes and to differences between changes in the derivatives' intrinsic value and fair value.

Foreign Exchange Risk Management

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

US Airways Investment

ACE's investment in US Airways Group, Inc. ("US Airways") has been classified as available-for-sale and the period change in fair value has been treated as a charge through OCI amounting to $4 million, net of tax of $1 million, during Quarter 1 2007. As at March 31, 2007, an amount of $15 million, net of tax, relating to the unrealized gain on the investment is included in AOCI. As at May 10, 2007, the Corporation continued to hold 0.5 million shares in US Airways, representing less than 1% of the equity of US Airways.

11. OFF-BALANCE SHEET ARRANGEMENTS

Information on ACE's off-balance sheet arrangements is provided in ACE's 2006 annual MD&A dated February 14, 2007.

With the exception of the derivative instruments discussed in section 10 of this MD&A, there have been no material changes to off-balance sheet arrangements from those disclosed in ACE's 2006 annual MD&A dated February 14, 2007.

12. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

ACE's 2006 Annual Report contains a statement that the Chairman, President and Chief Executive Officer ("CEO") and the Executive Vice President and Chief Financial Officer ("CFO") have concluded that ACE's disclosure controls and procedures are effective based upon an evaluation of these controls and procedures conducted at December 31, 2006.

Changes in Internal Controls over Financial Reporting

There were no changes to ACE's internal controls over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting
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13. PENSION PLAN CASH FUNDING OBLIGATIONS

Information on Air Canada's pension plan cash funding obligations is provided in section 9.7 of ACE's 2006 annual MD&A dated February 14, 2007. For domestic registered pension plans, the information provided was based on the January 1, 2006 actuarial valuation. Air Canada expects to disclose projections based on the January 1, 2007 actuarial valuation for its cash pension plan funding obligations for the years 2007 through to 2011 in its Quarter 2 2007 MD&A. As a result of favourable investment experience and funding of past service contributions in 2006, the solvency deficit on the registered pension plans at January 1, 2007 is expected to have decreased compared to January 1, 2006 and, as a result, employer contributions determined in accordance with regulations are expected to decline by $90 million in 2007 and $120 million each year thereafter.

14. CRITICAL ACCOUNTING ESTIMATES

Information on ACE's critical accounting estimates, including assumptions made for pension and other benefits plans, is provided in ACE's 2006 annual MD&A dated February 14, 2007.

There were no significant changes in critical accounting estimates from those disclosed at that time.

15. RISK FACTORS

For a detailed description of the risk factors associated with ACE and/or its subsidiaries, refer to the section entitled "Risk Factors" in ACE's 2006 annual MD&A dated February 14, 2007. The Corporation is not aware of any significant changes to the Corporation's risk factors from those disclosed at that time.

16. NON-GAAP FINANCIAL MEASURES

EBITDAR/EBITDA

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

($ millions)	Quarter 1 2007	Quarter 1 2006	$ Change
Air Canada Services			
GAAP operating loss	(78)	(124)	46
Add back:			
Aircraft rent	73	83	(10)
Depreciation, amortization and obsolescence	128	115	13
EBITDAR	**123**	**74**	**49**
Add back:			
Special charge for labour restructuring	-	28	(28)
EBITDAR excluding special charges	**123**	**102**	**21**
Aeroplan [1]			
GAAP operating income	40	39	1
Add back:			
Depreciation, amortization and obsolescence	3	4	(1)
EBITDA	**43**	**43**	**-**
Jazz			
GAAP operating income	36	35	1
Add back:			
Aircraft rent	35	32	3
Depreciation, amortization and obsolescence	5	4	1
EBITDAR	**76**	**71**	**5**
ACTS			
GAAP operating income (loss)	3	(19)	22
Add back:			
Depreciation, amortization and obsolescence	9	8	1
EBITDA	**12**	**(11)**	**23**
Add back:			
Special charge for labour restructuring	9	5	4
EBITDA excluding special charges	**21**	**(6)**	**27**

1. *The information reflects Aeroplan results from January 1 to March 13, 2007. ACE ceased consolidating Aeroplan's results effective March 14, 2007.*

($ millions)	Quarter 1 2007	Quarter 1 2006	$ Change
Consolidated Total			
GAAP operating loss	(29)	(62)	33
Add back:			
Aircraft rent	104	113	(9)
Depreciation, amortization and obsolescence	146	134	12
EBITDAR	**221**	**185**	**36**
Add back:			
Special charge for labour restructuring	9	33	(24)
EBITDAR excluding special charges	**230**	**218**	**12**

Operating Income excluding Special Charges for Labour Restructuring

ACE uses operating income (loss) excluding the special charges for labour restructuring to assess the operating performance of its ongoing business without the effects of these special charges. These items are excluded from ACE financial results and from Air Canada Services and ACTS segment results as they could potentially distort the analysis of trends in business performance. The special charges for labour restructuring relate to the non-unionized workforce reduction plan announced in February 2006 and to the workforce reduction resulting from the termination of a third party heavy maintenance contract. The special charges are not reflective of ACE's underlying financial performance.

The following measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

Operating income (loss) excluding special charges for labour restructuring is reconciled to operating income as follows:

($ millions)	Quarter 1 2007	Quarter 1 2006	$ Change
Air Canada Services			
GAAP operating loss	(78)	(124)	46
Add back:			
Special charge for labour restructuring	-	28	(28)
Operating loss, excluding the special charge for labour restructuring	**(78)**	**(96)**	**18**

($ millions)	Quarter 1 2007	Quarter 1 2006	$ Change
ACTS			
GAAP operating income (loss)	3	(19)	22
Add back:			
Special charge for labour restructuring	9	5	4
Operating income (loss), excluding the special charge for labour restructuring	**12**	**(14)**	**26**

($ millions)	Quarter 1 2007	Quarter 1 2006	$ Change
ACE			
GAAP operating loss	(29)	(62)	33
Add back:			
Special charge for labour restructuring	9	33	(24)
Operating loss, excluding the special charge for labour restructuring	**(20)**	**(29)**	**9**