Quarter 2 2007
Management's Discussion and Analysis of
Results of Operations and Financial Condition

August 9, 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. ACE has four reportable segments: Air Canada (previously "Air Canada Services"), Aeroplan Limited Partnership ("Aeroplan or Aeroplan LP") up to March 14, 2007, Jazz Air LP ("Jazz") up to May 24, 2007 and ACTS LP ("ACTS"). Refer to section 6 of this MD&A for additional information.

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.

This 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 2 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. Also refer to section 15 of this MD&A.

Unless otherwise noted, this MD&A is current as of August 9, 2007. The ACE Audit, Finance & Risk Committee reviewed this MD&A and the Quarter 2 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 SEDAR at www.sedar.com, EDGAR at www.sec.gov/edgar.shtml or ACE's website at www.aceaviation.com.

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 and in section 15 of this MD&A. 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, 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 INTERESTS

The following is a descriptive listing of ACE's aviation interests at June 30, 2007.

Segment	Operating Companies	Ownership
Air Canada	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".	31.1 %
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 is held indirectly through its holdings of Jazz Air Income Fund units. See "Recent Significant Events".	49.0 %
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 approximately 5% of the total equity. On June 22, 2007, ACE announced that it had agreed to sell a 70% interest in ACTS. See "Recent Significant Events".	100.0 %

5. RECENT SIGNIFICANT EVENTS

A number of significant events occurred in the first six months of 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.

On May 24, 2007, ACE shareholders received 18,000,000 units of Aeroplan Income Fund representing 0.157 units 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 on the TSX on May 24, 2007, the distribution was valued at approximately $387 million or approximately $3.39 per ACE share.

As at August 9, 2007, ACE holds a 31.1% 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 into 25,000,000 units of Jazz Air Income Fund.

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

On May 24, 2007, ACE shareholders received 12,000,000 units of Jazz Air Income Fund representing 0.105 units per variable voting share, voting share and preferred share (on an as-converted basis) of ACE. Based on a closing price of $8.26 per unit of Jazz Air Income Fund on the TSX on May 24, 2007, the distribution was valued at approximately $99 million or approximately $0.87 per ACE share.

As at August 9, 2007, ACE holds a 49.0% interest in Jazz, indirectly through its holding of Jazz Air 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 Jazz.

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 ACE.

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. 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. 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 currently expected to represent up to approximately 5% of the equity of ACTS LP. 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.

On June 22, 2007, ACE announced that it had agreed to sell a 70% interest in ACTS LP to a consortium consisting of Sageview Capital LLC, a private investment firm, and KKR Private Equity Investors, L.P., the publicly traded fund of Kohlberg Kravis Roberts & Co. ("KKR"). ACE will retain a 30% equity interest in ACTS, subject to TACA's rights discussed above which could decrease ACE's equity interest to approximately 25%. Air Canada will remain its largest customer. The transaction implies an enterprise value of approximately $975 million for 100% of ACTS on a cash and debt free basis and is expected to close during Quarter 3 2007, subject to customary closing conditions and regulatory approvals. Net cash proceeds to be received by ACE from this transaction will be confirmed on closing after confirmation of certain final adjustments including the purchase by ACTS of a building from Air Canada for $28 million, the settlement of the right granted to Grupo TACA, closing expenses and other financing matters. The implied enterprise value of $975 million includes the value of the intercompany notes payable by ACTS to ACE and to Air Canada in the amounts of $200 million and $17 million, respectively, which will be settled on closing.

Refer to Note 12 and Note 13 of ACE's Quarter 2 2007 interim consolidated financial statements for additional information.

US Airways Investment

During Quarter 2 2007, the Corporation disposed of 0.249 million shares of its holding in US Airways Group, Inc. ("US Airways"). The net proceeds from the sale transactions amounted to $8 million (US$8 million). The Corporation recorded a pre-tax gain of $4 million ($3 million after tax) as a result of this transaction.

At June 30, 2007, the Corporation continued to hold 0.251 million shares in US Airways with a market value of $8 million (US$8 million).

Subsequent to June 30, 2007, the Corporation disposed of the remaining 0.251 million shares of its holding in US Airways. The net proceeds from the sale transactions amounted to $8 million (US$8 million). During Quarter 3 2007, the Corporation will record a pre-tax gain of $4 million ($3 million after tax) as a result of this transaction.

6. ACCOUNTING POLICIES AND ESTIMATES

ACE's interim unaudited consolidated financial statements and notes for Quarter 2 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. Significant exceptions are a change in accounting for ACE's investment in Aeroplan effective March 14, 2007; a change in accounting for ACE's investment in Jazz effective May 24, 2007; 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 2 2007 interim unaudited consolidated financial statements.

Accounting for Aeroplan

On March 14, 2007, as a result of the special distribution of Aeroplan Income Fund units and the conversion of its remaining units of Aeroplan LP into units of Aeroplan Income Fund, the Corporation's results and financial position reflect 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 includes $20 million of equity income from the Aeroplan investment which represents the results of operations after the distribution date ($17 million for Quarter 2 2007).

ACE's consolidated statement of financial position as at June 30, 2007 does not reflect the financial position of Aeroplan LP. 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 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 May 24, 2007 distribution of Aeroplan units resulted in a further reduction to the negative investment in Aeroplan of $63 million with a credit to contributed surplus in the amount of $57 million for Quarter 2 2007 and a reduction to interest expense of $6 million for a total contributed surplus of $483 million for the six months ended June 30, 2007.

The cash flow impact of ACE's deconsolidation of Aeroplan was $231 million. This reflects the Aeroplan cash that was removed from ACE's consolidated statement of financial position as a result of the deconsolidation of Aeroplan in Quarter 1 2007 and was classified as a cash outflow from investing activities on ACE' s consolidated statement of cash flows.

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 between Air Canada and Aeroplan were as follows:

($ millions)	June 30, 2007
Accounts receivable	25
	25

The related party revenues and expenses to Air Canada with Aeroplan for the three months ended June 30, 2007 and the period between March 14, 2007 and June 30, 2007 are summarized below:

($ millions)	Three months ended June 30, 2007	March 14 to June 30, 2007
Revenues		
Revenues from Aeroplan related to Aeroplan rewards	91	129
Cost of Aeroplan Miles purchased from Aeroplan	(62)	(84)
Property rental revenues from related parties	4	5
	33	**50**
Expenses		
Call centre management and marketing fees for services from Aeroplan	1	2
Recovery of wages, salary and benefit expense for employees assigned to Aeroplan	(13)	(17)
	(12)	**(15)**

Aeroplan Miles Obligation

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

As of June 30, 2007, a liability for approximately 10 billion miles, or $116 million, remains in Air Canada, of which $59 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 2 2007 interim unaudited consolidated statement of financial position.

Accounting for Jazz

As a result of the special distribution of Jazz Air Income Fund units on May 24, 2007, the Corporation's results and financial position reflect the consolidation of Jazz's operations only up to May 24, 2007. After that date, ACE's investment in Jazz is accounted for using the equity method. ACE's consolidated statement of operations includes $7 million of equity income from the Jazz investment which represents the results of operations following the May 24, 2007 distribution date.

ACE's consolidated statement of financial position as at June 30, 2007 does not reflect 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 million and other current assets of $109 million;
- Long-lived assets of $239 million;
- Current liabilities of $213 million;
- Long-term debt of $115 million; and
- Other long-term liabilities of $71 million.

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

The cash flow impact of ACE's deconsolidation of Jazz was $138 million. This reflects the Jazz cash that was removed from ACE's consolidated statement of financial position as a result of the deconsolidation of Jazz in Quarter 2 2007 and is classified as a cash outflow from investing activities on the consolidated statement of cash flows.

The Corporation has various related party transactions with Jazz subsequent to the change in accounting for ACE's investment in Jazz. 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 Jazz resulting from the application of the commercial and contractual agreements were as follows:

($ millions)	June 30, 2007
Accounts receivable	107
Accounts payable	(77)
	30

The related party revenues and expenses with Jazz for the period between May 24, 2007 and June 30, 2007 are summarized below:

($ millions)	May 24 to June 30, 2007
Revenues	
Revenue from Corporate services and other (Air Canada)	6
Maintenance revenue from Jazz (ACTS)	3
Property rental revenues with Jazz (Air Canada)	1
	10
Expenses (Air Canada)	
Expense from Capacity Purchase Agreement with Jazz	76
Pass-through fuel expense from Jazz	29
Pass-through airport user fees from Jazz	17
Pass-through other expense from Jazz	2
Other expenses from Jazz	1
	125

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	4
Retained earnings, net of tax	8
Accumulated other comprehensive income (loss) , net of tax of $4 million	(7)

Refer to Note 1 to ACE's Quarter 2 2007 interim unaudited 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. Refer to Note 16 to ACE's Quarter 2 2007 interim unaudited consolidated financial statements for additional information.

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.

7. RESULTS OF OPERATIONS – QUARTER 2 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 June 30, 2007.

Unaudited	Quarter 2 2007				
($ millions)	Air Canada	Jazz[(2)]	ACTS	CIE	ACE Total
Operating revenue					
Passenger revenue	$ 2,336	$ -	$ -	$ -	$ 2,336
Cargo revenue	135	-	-	-	135
Other revenue	118	1	56	13	188
External revenue	2,589	1	56	13	2,659
Inter-segment revenue	46	248	202	(496)	-
	2,635	**249**	**258**	**(483)**	**2,659**
Operating expenses					
Wages, salary and benefits	475	56	90	5	626
Aircraft fuel	636	54	-	(53)	637
Aircraft rent	71	22	-	(2)	91
Airport and navigation fees	257	33	-	(34)	256
Aircraft maintenance, materials, and supplies	205	20	79	(183)	121
Communications and information technology	67	1	4	(3)	69
Food, beverages and supplies	78	2	-	1	81
Depreciation, amortization, and obsolescence	136	4	11	(2)	149
Commissions	51	-	-	-	51
Capacity purchase with Jazz	232	-	-	(156)	76
Special charge for labour restructuring	-	-	6	-	6
Other operating expenses	339	31	59	(29)	400
	2,547	**223**	**249**	**(456)**	**2,563**
Operating income (loss)	**88**	**26**	**9**	**(27)**	**96**
Non-operating income (expense)					
Interest income	23	1	-	4	28
Interest expense	(86)	(1)	(5)	(4)	(96)
Interest capitalized	28	-	-	-	28
Aeroplan equity investment income[(1)]	-	-	-	17	17
Jazz equity investment income[(2)]	-	-	-	7	7
Gain on sale of US Airways shares	-	-	-	4	4
Gain on disposal of assets	14	-	-	-	14
Loss on financial instruments	(6)	-	-	-	(6)
Other non-operating income (expense)	(6)	1	-	4	(1)
	(33)	1	(5)	32	(5)
Income before the following items:	55	27	4	5	91
Non-controlling interest	(4)	-	-	(52)	(56)
Foreign exchange gain	160	-	(1)	(1)	158
Provision for income taxes	(56)	-	-	(19)	(75)
Income (loss) for the period	**$ 155**	**$ 27**	**$ 3**	**$ (67)**	**$ 118**
EBITDAR/EBITDA[(3)]	**295**	**52**	**20**	**(31)**	**336**
EBITDAR/EBITDA[(3)] excluding special charges	**295**	**52**	**26**	**(31)**	**342**

1. *ACE is accounting for its investment in Aeroplan under the equity method and, for Quarter 2 2007, has recorded equity income from the Aeroplan investment in non-operating income under "Aeroplan equity investment income" within the CIE segment.*
2. *The information reflects Jazz results from April 1 to May 23, 2007. Commencing May 24, 2007, ACE is accounting for its investment in Jazz under the equity method and, for the period May 24 to June 30, 2007, has recorded equity income from the Jazz investment in non-operating income under "Jazz equity investment income" within the CIE segment.*
3. *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 June 30, 2006.

Unaudited	**Quarter 2 2006**					
($ millions)	**Air Canada**	**Aeroplan**	**Jazz**	**ACTS**	**CIE**	**ACE Total**
Operating revenue						
Passenger revenue	$ 2,262	$ -	$ -	$ -	$ 26	$ 2,288
Cargo revenue	152	-	-	-	-	152
Other revenue	121	181	2	55	(117)	242
External revenue	2,535	181	2	55	(91)	2,682
Inter-segment revenue	41	2	338	171	(552)	-
	2,576	**183**	**340**	**226**	**(643)**	**2,682**
Operating expenses						
Wages, salary and benefits	449	20	77	83	7	636
Aircraft fuel	631	-	71	-	(71)	631
Aircraft rent	83	-	33	-	(3)	113
Airport and navigation fees	245	-	43	-	(43)	245
Aircraft maintenance, materials, and supplies	189	-	22	67	(160)	118
Communications and information technology	64	6	2	4	(7)	69
Food, beverages and supplies	79	-	4	-	(1)	82
Depreciation, amortization, and obsolescence	118	4	7	7	4	140
Commissions	59	-	-	-	-	59
Capacity purchase with Jazz	215	-	-	-	(215)	-
Other operating expenses	331	122	45	64	(154)	408
	2,463	**152**	**304**	**225**	**(643)**	**2,501**
Operating income (loss)	**113**	**31**	**36**	**1**	**-**	**181**
Non-operating income (expense)						
Interest income	20	4	1	-	4	29
Interest expense	(76)	(4)	(2)	(4)	(5)	(91)
Interest capitalized	13	-	-	-	-	13
Gain on sale of US Airways shares	-	-	-	-	100	100
Gain on disposal of assets	1	-	-	-	-	1
Loss on financial instruments	(1)	-	-	-	-	(1)
Other non-operating income (expense)	(3)	1	-	(1)	4	1
	(46)	1	(1)	(5)	103	52
Income (loss) before the following items:	67	32	35	(4)	103	233
Non-controlling interest	(3)	-	-	-	(16)	(19)
Foreign exchange gain	108	-	-	-	(1)	107
Provision for income taxes	(20)	-	-	-	(65)	(85)
Income (loss) for the period	**$ 152**	**$ 32**	**$ 35**	**$ (4)**	**$ 21**	**$ 236**
EBITDAR/EBITDA[(1)]	**314**	**35**	**76**	**8**	**1**	**434**

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

ACE recorded operating income of $96 million in Quarter 2 2007 compared to operating income of $181 million in Quarter 2 2006. EBITDAR of $336 million was recorded in the quarter compared to EBITDAR of $434 million in the same period in 2006. Excluding the special charge for labour restructuring of $6 million recorded by ACTS in Quarter 2 2007, EBITDAR for Quarter 2 2007 was $342 million. As previously discussed, effective March 14, 2007, ACE's investment in Aeroplan is accounted for using, for the full period, the equity method and, effective May 24, 2007, ACE's investment in Jazz is also accounted for using the equity method. Consequently, ACE's results of operations for Quarter 2 2007 are not directly comparable to its operating results for Quarter 2 2006. The deconsolidation of Aeroplan had the effect of reducing ACE's consolidated operating income for the quarter by $47 million and EBITDA by $50 million in Quarter 2 2007. The deconsolidation of Jazz, commencing on May 24, 2007, had the effect of reducing ACE's consolidated operating income by $14 million and EBITDAR by $27 million in Quarter 2 2007. ACE's 2006 results reflect the consolidation of Aeroplan's and Jazz's operations.

Non-operating expense amounted to $5 million in Quarter 2 2007 compared to non-operating income of $52 million in Quarter 2 2006. In Quarter 2 2007, net interest expense decreased $9 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 new aircraft. In Quarter 2 2007, a CRJ-100 aircraft owned by Air Canada and leased to Jazz was damaged beyond repair. Given estimated insurance proceeds, Air Canada recorded a gain on disposal of $14 million in Quarter 2 2007. Included in non-operating income was a loss of $6 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. ACE's consolidated statement of operations for Quarter 2 2007 included $17 million of equity income from the Aeroplan investment and $7 million of equity income from the Jazz investment. In Quarter 2 2007, ACE recorded a pre-tax gain of $4 million ($3 million after tax) relating to the sale of 0.249 million shares in US Airways. In Quarter 2 2006, ACE recorded a pre-tax gain of $100 million ($83 million after tax) relating to the sale of 3.25 million shares in US Airways.

Gains from the revaluation of foreign currency monetary items amounted to $158 million in Quarter 2 2007, attributable to a stronger Canadian dollar at June 30, 2007 compared to March 31, 2007. This compared to foreign exchange gains on foreign currency monetary items of $107 million in Quarter 2 2006.

Non-controlling interest amounted to $56 million in Quarter 2 2007 compared to $19 million in Quarter 2, 2006, an increase of $37 million. This change is attributed to the initial public offering of Air Canada in November 2006 partially offset by the reduction in ACE's holdings of Aeroplan and Jazz and the resulting change to the equity method of accounting for these investments on March 14, 2007 and May 24, 2007, respectively.

Provisions for income taxes of $75 million were recorded in Quarter 2 2007 and included $11 million related to the special distributions of Aeroplan and Jazz units.

As a result of the changes in ACE's ownership interest in Air Canada, Jazz and Aeroplan, foreign exchange and other non-recurring gains, net income results for Quarter 2 2007 are not directly comparable to net income results for Quarter 2 2006.

Net income in Quarter 2 2007 amounted to $118 million or $0.98 per diluted share. Net income in Quarter 2 2006 amounted to $236 million or $2.05 per diluted share.

7.1. Air Canada

Air Canada reported operating income of $88 million in Quarter 2 2007 compared to operating income of $113 million in Quarter 2 2006, a decrease of $25 million. EBITDAR decreased $19 million over Quarter 2 2006.

In Quarter 2 2007, passenger revenues increased $74 million or 3% over Quarter 2 2006, reflecting traffic growth, increased fuel surcharges implemented in 2006 and the inclusion of certain ancillary passenger fees in 2007. Effective January 1, 2007, certain ancillary passenger fees which were previously included in "other" revenues, are included in "passenger" revenues. These ancillary passenger fees amounted to $19 million in Quarter 2 2007. A system yield improvement of 1% in Quarter 2 2007 over the same period in 2006 was principally due to the inclusion of ancillary passenger fees discussed above. In Quarter 2 2007, traffic grew 3% on a capacity increase of 2% over Quarter 2 2006, resulting in a passenger load factor increase of 0.6 percentage points. RASM rose 1% compared to Quarter 2 2006 due to both the improvement in system passenger load factor and the growth in yield.

In Quarter 2 2007, cargo revenues declined $17 million or 11% from Quarter 2 2006. This was mainly due to reduced freighter revenues as a result of a decision to reduce the Corporation's chartered MD-11 freighter fleet from three to two aircraft in late 2006 due to inadequate financial returns from Asian operations. System cargo traffic (freighter and non-freighter) was down 15% on a 7% reduction to available cargo capacity. Reduced freighter operations were responsible for over one half of the system traffic decline and essentially all of the available cargo capacity decline. Cargo yield per revenue ton mile improved 3% from the 2006 quarter, in part due to the favorable impact of stronger foreign currencies on international sales.

In Quarter 2 2007, other external revenues decreased $3 million over the same period in 2006 mainly due to the impact of the reclassification of certain ancillary passenger fees to "passenger" revenues effective January 1, 2007. This decrease was partly offset by aircraft sublease revenues of $6 million in 2007.

In Quarter 2 2007, operating expenses rose $84 million or 3% over the corresponding period in 2006. Unit cost, as measured by operating expense per ASM, increased 1% over Quarter 2 2006.

Wages and salaries expense totaled $381 million in Quarter 2 2007, an increase of $32 million or 9% from Quarter 2 2006 largely due to higher average wages and an increase of 447 full-time equivalent ("FTE") employees or 2% over Quarter 2 2006 on growth of 2% in ASM capacity. Factors in the increase in wages and salaries also included increased provisions for voluntary separation packages of $6 million in Quarter 2 2007, net favorable miscellaneous adjustments in Quarter 2 2006 of $9 million and increased overtime expenses of $2 million in Quarter 2 2007.

Employee benefits expense amounted to $94 million in Quarter 2 2007, a decrease of $6 million or 6% from Quarter 2 2006, largely attributable to a decline in pension and post-employment benefit expenses as a result of revised actuarial valuations. These decreases were partly offset by an increase in expenses relating to health benefits for active employees.

Fuel expense increased $5 million or 1% in Quarter 2 2007, mainly due to an ASM capacity increase of 2% over Quarter 2 2006.

Ownership costs, comprised of aircraft rent, depreciation, amortization and obsolescence expenses, increased $6 million in Quarter 2 2007 from Quarter 2 2006.

Airport and navigation fees increased $12 million or 5% in Quarter 2 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. These increases were partly offset by a 1.7% rate reduction for navigation fees in Canada which became effective in September 2006.

Aircraft maintenance, materials and supplies increased $16 million or 8% over Quarter 2 2006. Higher maintenance expenses related to satisfying minimum return conditions on aircraft leases, provisions for future return to lessor expenses on short-term leases and maintenance expenses related to preparing aircraft to be subleased to third party operators, accounted for $18 million of the increase. Quarter 2 2007 also witnessed an increase in Airbus A319/A320 narrow-body maintenance costs as these aircraft are in a work cycle which requires replacement of engine life limited parts. However, this increase was offset by reduced airframe and components maintenance expenses. Refer to section 9.6 in this MD&A for additional information on Air Canada's fleet strategy.

Commission expense decreased $8 million or 14% in Quarter 2 2007 on combined passenger and cargo revenue growth of 2% over Quarter 2 2006. The decrease in commission expense was mainly driven by the impact of a new commission structure at Air Canada Vacations in 2007 and 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 2.1% in Quarter 2 2007 from 2.4% in Quarter 2 2006.

In Quarter 2 2007, capacity purchase fees paid to Jazz, pursuant to the Jazz CPA, amounted to $232 million compared to capacity fees paid to Jazz of $215 million in Quarter 2 2006, an increase of $17 million. The 8% increase was mainly driven by a 13% increase in block hours over Quarter 2 2006. ASM capacity for flights operated by Jazz increased 15% over Quarter 2 2006.

Non-operating expense amounted to $33 million in Quarter 2 2007, a decrease of $13 million compared to Quarter 2 2006. In Quarter 2 2007, net interest expense decreased $8 million from Quarter 2 2006. A $10 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 new aircraft and growth in interest income due to higher cash balances and higher average interest rates. In Quarter 2 2007, Air Canada recorded a gain on disposal of $14 million relating to a damaged aircraft.

Gains from the revaluation of foreign currency monetary items amounted to $160 million in Quarter 2 2007, attributable to a stronger Canadian dollar at June 30, 2007 compared to March 31, 2007. This compared to gains of $108 million in Quarter 2 2006.

Segment income of $155 million was recorded in Quarter 2 2007 compared to segment income of $152 million in Quarter 2 2006.

7.2. Aeroplan

As discussed in section 6 "Accounting Policies and Estimates" of this MD&A, effective March 14, 2007, ACE accounts for its investment in Aeroplan using the equity method. The following discussion is based on Aeroplan's published results for Quarter 2 2007.

Gross billings rose to $239 million from $212 million or 13% as a result of higher miles issued reflecting growth in consumer spending and credit and charge card usage, as well as the positive momentum experienced by the travel industry.

Aeroplan reported EBITDA of $50 million in Quarter 2 2007 compared to EBITDA of $35 million in Quarter 2 2006, an increase of $15 million and operating income of $47 million in Quarter 2 2007 compared to operating income of $31 million in Quarter 2 2006, an improvement of $16 million.

Operating revenues in Quarter 2 2007 were up $37 million or 21%, 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 $22 million or 15% in Quarter 2 2007, largely due to an increase of $16 million in the cost of rewards, resulting from increased redemptions. Other operating expenses, excluding the cost of rewards, increased $6 million over Quarter 2 2006.

Net income of $49 million was recorded by Aeroplan in Quarter 2 2007, an improvement of $17 million over Quarter 2 2006.

7.3. Jazz

As discussed in section 6 "Accounting Policies and Estimates" of this MD&A, ACE's results from operations reflect the consolidation of Jazz's operations up to May 24, 2007. Effective that date, ACE accounts for its investment in Jazz using the equity method. The following discussion is based on Jazz's published results for Quarter 2 2007.

Jazz reported operating income of $40 million in Quarter 2 2007, an improvement of $4 million from the operating income of $36 million recorded in Quarter 2 2006. EBITDAR of $78 million was recorded in Quarter 2 2007 compared to EBITDAR of $76 million in the same period in 2006, an increase of $2 million. The improvements in operating income and EBITDAR were mainly due to a 15% increase in ASM capacity.

In Quarter 2 2007, operating revenues increased $35 million or 10% from $340 million in Quarter 2 2006 to $375 million in Quarter 2 2007, reflecting a 13% increase in the block hours flown, as well as a 14% increase in pass-through costs charged to Air Canada under the Jazz CPA.

In Quarter 2 2007, operating expenses rose $32 million or 11% from $303 million in Quarter 2 2006 to $335 million in Quarter 2 2007. Pass-through costs under the Jazz CPA, which include aircraft fuel, airport and navigation fees, certain terminal handling and other expenses, increased $17 million. Controllable costs increased $15 million.

Net income of $41 million was recorded in Quarter 2 2007 compared to net income of $36 million in Quarter 2 2006, an improvement of $5 million.

7.4. ACTS

In Quarter 2 2007, ACTS recorded operating income of $15 million, excluding special charges for labour restructuring of $6 million, compared to operating income of $1 million, an improvement of $14 million over the Quarter 2 2006. EBITDA, excluding special these charges, amounted to $26 million in Quarter 2 2007 compared to $8 million in the same period of 2006, an improvement of $18 million.

The improvement in 2007 results reflected revenue growth, the consolidation of Aeroman's operations in 2007 and continued focus on operating efficiencies. The consolidation of Aeroman's operations contributed $3 million to ACTS's Quarter 2 2007 operating results. Operating income, including special charges for labour restructuring, amounted to $9 million in Quarter 2 2007 compared to operating income of $1 million in Quarter 2 2006, an improvement of $8 million. EBITDA of $20 million in Quarter 2 2007 improved $12 million from the EBITDA of $8 million recorded in the same period in 2006.

As announced in March of this year, ACTS undertook a workforce reduction of 700 positions in Vancouver as a result of the termination by ACTS of an unprofitable third party heavy maintenance contract. As at June 30, 2007, approximately 400 reductions had been achieved, with completion of the entire reduction planned for by the end of August 2007. The special charge of $6 million ($15 million on a year-to-date basis) is related to this workforce reduction.

Operating revenues amounted to $258 million in Quarter 2 2007, an improvement of $32 million from Quarter 2 2006. This increase in operating revenues reflected growth across all customer segments, Aeroman revenues of $15 million in 2007, as well as a shift from heavy maintenance contracts toward more profitable engine maintenance activity, which grew 45% from the same period in 2006.

In Quarter 2 2007, including the special charge for labour restructuring, operating expenses amounted to $249 million, an increase of $24 million over Quarter 2 2006 and included expenses related to Aeroman in Quarter 2 2007 of $10 million. The increase in ACTS' operating expenses was to support the increased revenues.

Segment income of $3 million was recorded in Quarter 2 2007, an improvement of $7 million from the same period in 2006.

On July 9, 2007, ACTS announced the conclusion of new agreements with both TACA International Airlines of El Salvador and Concesionaria Vuela Compañia de Aviación ("Volaris") of Mexico. As per the two agreements, ACTS will provide maintenance, repair and overhaul of components, and related logistics services for both airlines' fleet of Airbus aircraft. Combined, these new contracts represent an estimated $200 million of potential revenue over a 10-year term and will initially cover work for a fleet of 50 aircraft that is forecast to grow to greater than 100 aircraft over the term of the contracts.

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 for 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 discussed in section 6 of this MD&A, ACE's investment in Aeroplan and Jazz is accounted for using the equity method. The consolidated statement of operations for Quarter 2 2007 reflects $17 million of equity income from ACE's investment in Aeroplan and $7 million from ACE's investment in Jazz.

In Quarter 2 2007, ACE recorded a pre-tax a pre-tax gain of $4 million ($3 million after tax) relating to the sale of 0.249 million shares in US Airways. In Quarter 2 2006, ACE recorded a pre-tax gain of $100 million ($83 million after tax) relating to the sale of 3.25 million shares of ACE's holdings in US Airways.

8. RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30, 2007

The following table reflects the results of the Corporation, the results of its reportable segments and certain non-GAAP measures for the six months ended June 30, 2007.

Unaudited	Six Months ended June 30, 2007					
($ millions)	Air Canada	Aeroplan[(1)]	Jazz[(2)]	ACTS	CIE	ACE Total
Operating revenue						
Passenger revenue	$ 4,473	$ -	$ -	$ -	$ 15	$ 4,488
Cargo revenue	275	-	-	-	-	275
Other revenue	327	198	3	113	(120)	521
External revenue	5,075	198	3	113	(105)	5,284
Inter-segment revenue	94	3	610	398	(1,105)	-
	5,169	**201**	**613**	**511**	**(1,210)**	**5,284**
Operating expenses						
Wages, salary and benefits	974	17	139	176	18	1,324
Aircraft fuel	1,221	-	125	-	(124)	1,222
Aircraft rent	144	-	57	-	(6)	195
Airport and navigation fees	500	-	80	-	(81)	499
Aircraft maintenance, materials, and supplies	429	-	50	158	(374)	263
Communications and information technology	138	7	2	8	(10)	145
Food, beverages and supplies	158	-	6	-	-	164
Depreciation, amortization, and obsolescence	264	3	9	20	(1)	295
Commissions	110	-	-	-	-	110
Capacity purchase with Jazz	462	-	-	-	(386)	76
Special charge for labour restructuring	-	-	-	15	-	15
Other operating expenses	759	134	83	122	(189)	909
	5,159	**161**	**551**	**499**	**(1,153)**	**5,217**
Operating income (loss)	**10**	**40**	**62**	**12**	**(57)**	**67**
Non-operating income (expense)						
Interest income	49	3	2	-	7	61
Interest expense	(177)	(3)	(3)	(10)	(26)	(219)
Interest capitalized	64	-	-	-	-	64
Aeroplan equity investment income[(1)]	-	-	-	-	20	20
Jazz equity investment income[(2)]	-	-	-	-	7	7
Gain on sale of US Airways shares	-	-	-	-	4	4
Gain on disposal of assets	21	-	-	-	-	21
Gain on financial instruments	28	-	-	-	-	28
Other non-operating income (expense)	(10)	(1)	1	-	9	(1)
	(25)	(1)	-	(10)	21	(15)
Income (loss) before non-controlling	(15)	39	62	2	(36)	52
Non-controlling interest	(6)	-	-	-	(73)	(79)
Foreign exchange gain	193	-	-	(1)	(1)	191
Provision for income taxes	(51)	-	-	-	(67)	(118)
Income (loss) for the period	**$ 121**	**$ 39**	**$ 62**	**$ 1**	**$ (177)**	**$ 46**
EBITDAR/EBITDA[(3)]	**418**	**43**	**128**	**32**	**(64)**	**557**
EBITDAR/EBITDA[(3)] excluding special charges	**418**	**43**	**128**	**47**	**(64)**	**572**

1. *Reflects Aeroplan results from January 1 to March 13, 2007. Since March 14, 2007, ACE is accounting for its investment in Aeroplan under the equity method and, for the period March 14 to June 30, 2007, has recorded equity income from the Aeroplan investment in non-operating income under "Aeroplan equity investment income" within the CIE segment.*
2. *Reflects Jazz results from April 1 to May 23, 2007. Since May 24, 2007, ACE is accounting for its investment in Jazz under the equity method and, for the period May 24 to June 30, 2007, has recorded equity income from the Jazz investment in non-operating income under "Jazz equity investment income" within the CIE segment.*
3. *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 six months ended June 30, 2006.

Unaudited	Six Months ended June 30, 2006					
($ millions)	Air Canada	Aeroplan	Jazz	ACTS	CIE	ACE Total
Operating revenue						
Passenger revenue	$ 4,264	$ -	$ -	$ -	$ 45	$ 4,309
Cargo revenue	303	-	-	-	-	303
Other revenue	316	378	4	101	(245)	554
External revenue	4,883	378	4	101	(200)	5,166
Inter-segment revenue	87	5	656	325	(1,073)	-
	4,970	**383**	**660**	**426**	**(1,273)**	**5,166**
Operating expenses						
Wages, salary and benefits	912	38	151	164	13	1,278
Aircraft fuel	1,200	-	130	-	(130)	1,200
Aircraft rent	166	-	65	-	(5)	226
Airport and navigation fees	475	-	83	-	(83)	475
Aircraft maintenance, materials, and supplies	396	-	45	131	(325)	247
Communications and information technology	138	12	4	7	(14)	147
Food, beverages and supplies	155	-	7	-	-	162
Depreciation, amortization, and obsolescence	233	8	11	15	7	274
Commissions	127	-	-	-	-	127
Capacity purchase with Jazz	421	-	-	-	(421)	-
Special charge for labour restructuring	28	-	-	5	-	33
Other operating expenses	730	255	92	122	(321)	878
	4,981	**313**	**588**	**444**	**(1,279)**	**5,047**
Operating income (loss)	**(11)**	**70**	**72**	**(18)**	**6**	**119**
Non-operating income (expense)						
Interest income	37	8	2	-	4	51
Interest expense	(147)	(7)	(4)	(8)	(13)	(179)
Interest capitalized	23	-	(1)	-	-	22
Dilution gain - Jazz	-	-	-	-	220	220
Gain on sale of US Airways shares	-	-	-	-	100	100
Gain on disposal of assets	3	-	-	-	1	4
Loss on financial instruments	(3)	-	-	-	-	(3)
Other non-operating income (expense)	1	-	-	(1)	6	6
	(86)	1	(3)	(9)	318	221
Income (loss) before non-controlling	(97)	71	69	(27)	324	340
Non-controlling interest	(7)	-	-	-	(27)	(34)
Foreign exchange gain	121	-	-	-	(1)	120
Recovery of (provision for) income taxes	9	-	-	-	(81)	(72)
Income (loss) for the period	**$ 26**	**$ 71**	**$ 69**	**$ (27)**	**$ 215**	**$ 354**
EBITDAR/EBITDA[(1)]	**388**	**78**	**148**	**(3)**	**8**	**619**
EBITDAR/EBITDA[(1)] excluding special charges	**416**	**78**	**148**	**2**	**8**	**652**

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 operating income of $67 million for the six months ended June 30, 2007 compared to operating income of $119 million for the six months ended June 30, 2006. EBITDAR of $557 million was recorded in the first six months of 2007 compared to EBITDAR of $619 million for the same period in 2006. As previously discussed, ACE's 2007 results reflect the consolidation of Aeroplan's operations only up to March 14, 2007 and the consolidation of Jazz's operations only up to May 24, 2007. After those dates, ACE's investment in Aeroplan and Jazz is accounted for using the equity method. Consequently, ACE's results of operations for the first six months of 2007 are not directly comparable to its operating results for the same period in 2006. The deconsolidation of Aeroplan, commencing on March 14, 2007, had the effect of reducing ACE's consolidated operating income by $55 million and EBITDA by $58 million in Quarter 2 2007. The deconsolidation of Jazz, commencing on May 24, 2007, had the effect of reducing ACE's consolidated operating income by $14 million and EBITDAR by $27 million in Quarter 2 2007. ACE's 2006 results reflect the consolidation of Aeroplan's and Jazz's operations.

In the first six months of 2007, a special charge for labour restructuring of $15 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 August 2007. In the first six months of 2006, a special charge of $33 million ($28 million in the Air Canada segment and $5 million in the ACTS segment) was recorded relating to a non-unionized workforce reduction plan. In Quarter 4 2006, the estimated cost of this program was revised and, as a result, Air Canada recorded a reduction of $8 million to the special charge for labour restructuring.

Non-operating expense amounted to $15 million for the six months ended June 30, 2007 compared to non-operating income of $221 million for the same period in 2006. In the first six months of 2007, net interest expense decreased $12 million from the first six months of 2006. The interest expense increase of $40 million, largely driven by the financing of additional aircraft, was offset by interest capitalized relating to the acquisition of new aircraft. In Quarter 2 2007, Air Canada recorded a gain on disposal of $14 million relating to a damaged aircraft. In addition, in the first half of 2007, Air Canada recorded gains of $7 million pertaining to the sale of one real estate property and the sale of parked aircraft. Included in non-operating income was a gain of $28 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. ACE recorded Aeroplan equity investment income of $20 million and Jazz equity investment income of $7 million in the first six months of 2007. In the first six months of 2007, ACE recorded a pre-tax gain of $4 million ($3 million after tax) relating to the sale of 0.249 million shares in US Airways. The first six months of 2006 included a dilution gain of $220 million ($210 million after tax) related to the Jazz IPO and a pre-tax gain of $100 million ($83 million after tax) relating to the sale of 3.25 million shares of ACE's holdings in US Airways.

Gains from the revaluation of foreign currency monetary items amounted to $191 million in the first six months of 2007, attributable to a stronger Canadian dollar at June 30, 2007 compared to December 31, 2006. This compared to foreign exchange gains on foreign currency monetary items of $120 million in the first six months of 2006.

Non-controlling interest amounted to $79 million in the first half of 2007 compared to $34 million in the first half of 2006, an increase of $45 million. This change is attributed to the initial public offering of Air Canada in November 2006 partially offset by the reduction in ACE's holdings of Aeroplan and Jazz and the resulting change to the equity method of accounting for these investments on March 14, 2007 and May 24, 2007, respectively.

Provisions for income taxes of $118 million were recorded in the six months ended June 30, 2007 and included $44 million related to the special distributions of Aeroplan and Jazz units and $17 million as a result of changes in tax elections previously estimated.

As a result of the changes in ACE's ownership interest in Air Canada, Jazz and Aeroplan, foreign exchange and other non-recurring gains, net income results for the first half of 2007 are not directly comparable to net income results for the first half of 2006.

Net income for the six months ended June 30, 2007 amounted to $46 million or $0.44 per diluted share. Net income for the six months ended June 30, 2006 amounted to $354 million or $3.16 per diluted share.

8.1. Air Canada

Air Canada reported operating income of $10 million for the six months ended June 30, 2007 compared to an operating loss of $11 million for the same period in 2006, an improvement of $21 million. A special charge for labour restructuring of $28 million was recorded in Quarter 1 2006. This charge was reduced by $8 million In Quarter 4 2006 with the total for the year 2006 amounting to $20 million. Excluding the special charges for labour restructuring in 2006, operating income in the six months ended June 30, 2007 declined $7 million compared to the same period in 2006. Excluding the special charges for labour restructuring in 2006, EBITDAR increased $2 million over the first six months of 2006.

In the first six months of 2007, passenger revenues increased $209 million or 5% over the same period in 2006, reflecting traffic growth, increased fuel surcharges implemented in 2006 and the inclusion of certain ancillary passenger fees in 2007. Ancillary passenger fees, which were previously recorded in "other" revenues, amounted to $30 million in the first six months of 2007. The system yield improvement of 1% in the first six months of 2007 over the same period in 2006 was principally due to the inclusion of ancillary passenger fees discussed above. For the six months ended June 30, 2007, traffic grew 4% on a capacity increase of 3% over the same period in 2006, resulting in a passenger load factor increase of 1.0 percentage points. RASM rose 2% due to both the improvement in system passenger load factor and the growth in yield.

For the six months ended June 30, 2007, cargo revenues decreased $28 million or 9% from the same period in 2006, mainly as a result of reduced freighter flying. System cargo traffic was down 13% on a 7% reduction in available cargo capacity. Reduced freighter operations were responsible for almost one half of the system traffic decline and for most of the available cargo capacity decline. Cargo yield per revenue ton mile increased 4% due in part to the favourable impact of stronger foreign currencies on international sales during 2007.

In the first six months of 2007, other external revenues grew $11 million or 3% from the same period in 2006 largely as result of an increase in sales of ground packages by Air Canada Vacations, aircraft sublease revenues of $7 million in 2007, third party revenues at Air Canada Ground Handling and other miscellaneous revenues. These increases were partly offset by the impact of the reclassification of certain ancillary passenger fees to "passenger" revenues effective January 1, 2007.

In the first six months of 2007, operating expenses increased $178 million or 4% over the corresponding period in 2006. Unit cost, as measured by operating expense per ASM, increased 1% over the first six months of 2006. Excluding fuel expense and the special charge for labour restructuring, unit cost increased 2%.

Wages and salaries expense totaled $762 million in the first six months of 2007, an increase of $65 million or 9% over the corresponding period in 2006 largely due to higher average wages, favorable adjustments in the 2006 period, increased overtime expenses and provisions for voluntary separation packages. 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.

Fuel expense increased $21 million or 2% in the first six months of 2007, mainly due to an ASM capacity increase of 3% over the same period in 2006. The volume-related increase of $39 million was partly offset by an $11 million decrease due to a reduction in MD-11 freighter operations from three to two MD-11 aircraft. Increased realized hedging losses added additional fuel expenses of $7 million. These increases were partly offset by a decrease of 2% in the average base fuel price and a slightly stronger Canadian dollar versus the US dollar which reduced fuel expense by $9 million and $5 million respectively.

Ownership costs, comprised of aircraft rent, depreciation, amortization and obsolescence expenses, increased $9 million in the first six months of 2007 compared to the same period in 2006.

Airport and navigation fees increased $25 million or 5% in the six months ended June 30, 2007 compared to the same period in 2006, 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. These increases were partly offset by a 1.7% rate reduction for navigation fees in Canada which became effective in September 2006.

Aircraft maintenance, materials and supplies increased $33 million or 8% in the first six months of 2007 compared to the same period in 2006. Higher maintenance expenses related to satisfying minimum return conditions on aircraft leases, provisions for future return to lessor expenses on short-term leases and maintenance expense related to preparing aircraft to be subleased to third party operators accounted for $29 million of the increase. In addition, the first half of 2007 also reflected an increase in Airbus narrow-body maintenance costs which was largely offset by reduced airframe and components maintenance expenses. Refer to section 9.6 in this MD&A for additional information on Air Canada's fleet strategy.

Commission expense decreased $17 million or 13% in the first six months of 2007 on combined passenger and cargo revenue growth of 4% over the first six months of 2006, mainly driven by the impact of a new commission structure at Air Canada Vacations in 2007 and by commercial initiatives implemented by Air Canada to lower commission costs which more than offset the volume-related increase.

In the first six months of 2007, capacity purchase fees paid to Jazz increased $41 million or 10% over the same period in 2006, largely driven by a 13% growth in block hours. ASM capacity for flights operated by Jazz increased 14% over the first six months of 2006.

Other operating expense rose $29 million or 4% in the first six months of 2007 largely due to a growth in expenses, mainly in Quarter 1 2007, related to ground packages as a result of higher passenger volumes at Air Canada Vacations.

Non-operating expense amounted to $25 million in the six months ended June 30, 2007 compared to non-operating expense of $86 million in the six months ended June 30, 2006. In the first six months of 2007, net interest expense decreased $23 million. A $30 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 new aircraft and growth in interest income due to higher cash balances and higher average interest rates. In Quarter 2 2007, Air Canada recorded a gain on disposal of $14 million relating to a damaged aircraft. In addition, in the first half of 2007, Air Canada recorded gains of $7 million pertaining to the sale of one real estate property and the sale of parked aircraft. Included in non-operating income in the first six months of 2007 was a $28 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 $193 million in the first six months of 2007, attributable to a stronger Canadian dollar at June 30, 2007 compared to December 31, 2006. This compared to gains of $121 million in the first six months of 2006.

Segment income of $121 million was recorded in the six months ended June 30, 2007 compared to segment income of $26 million in the six months ended June 30, 2006, an improvement of $95 million.

8.2. Aeroplan

As previously discussed, ACE's results from operations reflect the consolidation of Aeroplan's operations only up to March 14, 2007. After that date, Aeroplan is accounted for using the equity method. The following discussion is based on Aeroplan's published results for the six-month period ended June 30, 2007.

Gross billings rose to $467 million from $414 million or 13% as a result of higher miles issued reflecting growth in consumer spending and credit and charge card usage, as well as the positive momentum experienced by the travel industry.

Aeroplan recorded operating income of $95 million for the six months ended June 30, 2007, an increase of $25 million over the corresponding period in 2006. EBITDA for the six months ended June 30, 2007 was $101 million, an increase of $23 million over the first six months of 2006. The improvements in operating income and EBITDA were mainly driven by a 25% growth in miles redeemed.

Operating revenues for the six months ended June 30, 2007 of $466 million grew $83 million or 22% from the same period in 2006, primarily attributable to higher redemption activity, to higher cumulative average revenue recognized per Aeroplan mile and to an increase of $7 million in breakage revenues.

Total operating expenses rose by $58 million or 19% in the first six months of 2007, largely due to an increase of $46 million in the cost of rewards, resulting from increased redemptions. Other operating expenses excluding the cost of rewards, increased $12 million over the same period in 2006 due to higher technology costs related to the maintenance and support of systems deployed into service in late 2006, higher advertising and promotion costs as a result of promotional activities related to launch campaigns and increased compensation costs.

Net income of $100 million was recorded by Aeroplan in the fist six months of 2007, an improvement of $29 million over the corresponding period in 2006.

8.3. Jazz

As previously discussed, ACE's results from operations reflect the consolidation of Jazz's operations only up to May 24, 2007. After that date, Jazz is accounted for using the equity method. The following discussion is based on Jazz's published results for the six-month period ended June 30, 2007.

In the first half of 2007, Jazz reported operating income of $76 million, an improvement of $4 million from the operating income of $72 million recorded in the same period in 2006. EBITDAR of $155 million was recorded in the six months ended June 30, 2007 compared to EBITDAR of $148 million for the same period in 2006. The improvements in operating income and EBITDAR were mainly due to a 14% increase in ASM capacity.

In the first six months of 2007, operating revenues increased $79 million or 12% over the corresponding period in 2006, reflecting a 13% increase in the block hours flown, as well as a 16% increase in pass-through costs charged to Air Canada under the Jazz CPA.

In the first six months of 2007, operating expenses rose $75 million or 13% over the corresponding period in 2006. Increased pass-through costs under the Jazz CPA represented $38 million of the total increase in operating expenses. Controllable costs reflected the remainder of the increase.

Net income of $76 million was recorded in the first six months of 2007, an improvement of $7 million over the corresponding period in 2006.

8.4. ACTS

In the first six months of 2007, ACTS recorded operating income of $27 million, excluding special charges for labour restructuring of $15 million, compared to an operating loss of $13 million, excluding special charges for labour restructuring of $5 million, an operating result improvement of $40 million over the first six months of 2006. EBITDA, excluding these special charges, amounted to $47 million in the first six months of 2007 compared to $2 million in the same period in 2006.

Including these special charges, operating income amounted to $12 million in the first six months of 2007 compared to an operating loss of $18 million in the corresponding period in 2006, an improvement of $30 million. EBITDA of $32 million in the first half of 2007 improved $35 million from the negative EBITDA of $3 million recorded in the corresponding period in 2006.

Operating revenues of $511 million for the first six months of 2007 increased $85 million from the first six months of 2006, driven by Aeroman's revenues of $22 million in 2007 and growth in engine maintenance businesses.

Operating expenses of $499 million, including the special charges for labour restructuring discussed above, were up $55 million from the first six months of 2006. Expenses grew to support the increased revenues. However, through labour, material and real estate cost efficiencies, ACTS delivered a reduced cost to revenue ratio in the first six months of 2007 compared to the same period in 2006.

Segment income of $1 million for the first six months of 2007 reflects a $28 million improvement from the corresponding period in 2006.

8.5. 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 previously discussed, ACE's investment in Aeroplan and Jazz is accounted for using the equity method. The consolidated statement of operations for the first six months of 2007 reflects $20 million of equity income from ACE's investment in Aeroplan and $7 million from ACE's investment in Jazz.

In Quarter 2 2007, ACE recorded a pre-tax a pre-tax gain of $4 million ($3 million after tax) relating to the sale of 0.249 million shares in US Airways.

The first six months of 2006 included a dilution gain of $220 million ($210 million after tax) related to the Jazz IPO and a pre-tax gain of $100 million ($83 million after tax) relating to the sale of 3.25 million shares of ACE's holdings in US Airways.

9. FINANCIAL AND CAPITAL MANAGEMENT

The following table summarizes the consolidated statement of financial position of ACE as at June 30, 2007 and December 31, 2006.

Condensed Consolidated Statement of Financial Position ($ millions)	June 30, 2007	December 31, 2006
Assets		
Cash, cash equivalents and short-term investments	2,102	3,178
ACTS assets held for sale	296	-
Other current assets	1,385	1,856
Current assets	3,783	5,034
Property and equipment	6,594	5,989
Intangible assets	832	1,643
ACTS assets held for sale	215	-
Other assets	414	775
	11,838	**13,441**
Liabilities		
ACTS current liabilities held for sale	105	-
Other current liabilities	3,129	3,948
Current liabilities	3,234	3,948
Long-term debt and capital leases obligations	3,438	3,759
Pension and other benefits liabilities	1,887	1,876
ACTS long-term liabilities held for sale	79	-
Other long-term liabilities	809	1,586
	9,447	**11,169**
Non-controlling interest	**680**	**695**
Shareholders' equity	**1,711**	**1,577**
	11,838	**13,441**

9.1. Analysis of Financial Position

Cash, cash equivalents and short-term investments

At June 30, 2007, cash, cash equivalents and short-term investments amounted to $2,102 million, a decrease of $1,076 million from December 31, 2006, primarily reflecting the exclusion of Aeroplan's and Jazz's cash, cash equivalents and short-term investments which amounted to $670 million and $144 million, respectively, as a result of deconsolidation, and a decrease in Air Canada's cash, cash equivalents and short-term investments of $359 million, mainly due to investing activities. At June 30, 2007, unconsolidated ACE cash, cash equivalents and short-term investments totaled $347 million.

Long-term Debt

Aircraft-related borrowings in the first six months of 2007 amounted to $644 million, which related to the financing by Air Canada of four Boeing 777 and eight Embraer aircraft.

Other assets and liabilities

At June 30, 2007, other assets and liabilities were largely impacted by the change in accounting for ACE's investment in Aeroplan and Jazz. Refer to section 6 of this MD&A for additional information.

9.2. Share Information

At June 30, 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 June 30, 2007	At December 31, 2006
Issued and outstanding common shares		
Class A variable voting shares	79,277	79,499
Class B voting shares	24,098	22,772
Total issued and outstanding common shares	**103,375**	**102,271**
Common shares potentially issuable		
Convertible preferred shares	11,014	10,747
Convertible notes	12,437	7,354
Stock options	4,439	3,598
Total common shares potentially issuable	**27,890**	**21,699**
Total outstanding and potentially issuable common shares	**131,265**	**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. As a result of the May 24, 2007 distributions, the conversion rate was adjusted from 32.5210 to 37.6879, effective June 12, 2007. These 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 distributions, 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. In relation to the May 24, 2007 distributions, the weighted average option exercise price and number of options outstanding was amended from $18.53 and 3,854,370 options to $15.98 and 4,466,744 options.

9.3. 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 June 30, 2007, Air Canada had unused credit facilities of $400 million.

9.4. Consolidated Cash flows

As previously discussed, ACE's 2007 results reflect the consolidation of Aeroplan's operations only up to March 14, 2007 and the consolidation of Jazz's operations only up to May 24, 2007.

Cash flows from operations decreased $104 million in Quarter 2 2007 and $178 million on a year-to-date basis, primarily as a result of the change in accounting for ACE's investment in Aeroplan and Jazz and higher pension funding of $23 million in Quarter 2 2007 and $70 million in the first six months of 2007.

Aircraft-related borrowings for Air Canada amounted to $532 million in Quarter 2 2007 and related to four Boeing 777-300 aircraft and four Embraer aircraft. In the first six months of 2007, aircraft-related borrowings amounted to $644 million and related to four Boeing 777-300 aircraft in Quarter 2 2007 and to eight Embraer aircraft. Scheduled and other debt and capital lease payments in Quarter 2 2007 and in the first six months of 2007 amounted to $90 million and $168 million, respectively. Reduction of non-controlling interest of $36 million in Quarter 1 2007 was related to the refinancing of five CRJ aircraft leases previously classified as variable interest entities.

The Aeroplan cash of $231 million and the Jazz cash of $138 million which were removed from ACE's consolidated statement of financial position have been classified as cash outflows from investing activities.

Cash flows used for investing in the first six months of 2007 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, which mainly related to Air Canada, totaled $710 million in Quarter 2 2007 and $1,111 million on a year-to-date basis. Included in the Quarter 2 2007 were $477 million related to four Boeing 777 aircraft, $124 million related to four Embraer aircraft, $60 million related to rotable inventory and spare engines and $40 million related to the aircraft interior refurbishment program and other aircraft betterments. Included in the first six months of 2007 were $606 million related to four Boeing 777 aircraft, $258 million related to eight Embraer aircraft, $75 million related to rotable inventory and spare engines and $89 million related to the aircraft interior refurbishment program and other aircraft betterments.

9.5. 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 Boeing 787 aircraft are scheduled to commence in 2010 and be completed by 2014. In addition, these amendments provide for an additional 23 Boeing 787 option aircraft, for a total of up to 60, committed and option, 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 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 the seven Boeing 777 to be acquired from Boeing 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 5.36% based on interest rates as at June 30, 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 to the Boeing agreements by year, based on June 30, 2007 exchange rates, 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[(1)]	2007	2008	2009	2010	2011	Thereafter[(2)]
Increase (decrease) in total committed expenditures	28	(9)	(293)	72	263	2,815
Decrease (increase) in committed financing on committed expenditures	47	-	276	-	(113)	(690)
Increase (decrease) in total committed expenditures, net of financing	75	(9)	(17)	72	150	2,125

1. *US dollar amounts are converted using the June 30, 2007 noon day rate of $1.0634. Final aircraft delivery prices include estimated escalation and deferred price delivery payment interest calculated based on the 90-day USD LIBOR rate at June 30, 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 any of the Boeing 777 aircraft, the number of Boeing 787 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.

9.6. Air Canada Fleet Strategy

The following table provides the actual and planned fleet changes to Air Canada's fleet (excluding aircraft operated by Jazz):

		Actual					Planned						
Fleet Plan	**December 2006**	**New Deliveries**	**Sublease from Air Canada**	**Lease returns**	**Parked**	**YTD June 2007**	**New Deliveries**	**Sublease from Air Canada / Sale by Air Canada**	**Lease returns**	**Parked**	**December 2007**	**December 2006**	**Variance**
B777-3	-	4				4	1				**5**	**-**	**5**
B777-2	-	1				1	2				**3**	**-**	**3**
B763	33			(2)		31					**31**	**33**	**(2)**
B762	11				(1)	10				(1)	**9**	**11**	**(2)**
A345	2					2		(2)			**-**	**2**	**(2)**
A343	10		(2)			8		(1)	(2)		**5**	**10**	**(5)**
A333	8					8					**8**	**8**	**-**
A321	10					10					**10**	**10**	**-**
A320	47			(5)		42			(1)		**41**	**47**	**(6)**
A319	45		(4)			41		(4)			**37**	**45**	**(8)**
EMB 190	18	8				26	16				**42**	**18**	**24**
EMB 175	15					15					**15**	**15**	**-**
Total	199	13	(6)	(7)	(1)	198	19	(7)	(3)	(1)	**206**	**199**	**7**

The average age of Air Canada's operating fleet (excluding aircraft operated by Jazz) was 9.3 years at June 30, 2007 compared to 9.7 years at June 30, 2006.

Air Canada has increased the number of its 93 seat Embraer 190 aircraft by four aircraft in Quarter 2 2007 bringing the total Embraer 190 aircraft deliveries in 2007 to eight aircraft. Since June 30, 2007, an additional four Embraer 190 aircraft have been added to Air Canada's fleet for a total of 30 aircraft. In Quarter 2 2007, Air Canada took delivery of one Boeing 777-200 aircraft and an additional three Boeing 777-300 aircraft, one of which was received on lease from International Lease Finance Corporation ("ILFC"). Since June 30, 2007, one Boeing 777-200 and one Boeing 777-300 aircraft have been delivered. Since the start of 2007, Air Canada has taken delivery or received five Boeing 777-300 aircraft and two Boeing 777-200 aircraft.

In the first six months of 2007, Air Canada removed 14 aircraft from its fleet comprised of two Boeing 767-300 aircraft and three Airbus A320 aircraft which were returned to lessors, one Boeing 767-200 aircraft which was retired from service, one Airbus A340 aircraft and four Airbus A319 aircraft which were subleased to other airlines, one Airbus A340 aircraft which was removed from service pending sublease to another airline and two Airbus A320 aircraft which were removed from service pending return to lessors.

Letters of intent have been executed for the disposition of four Airbus A319 aircraft to another airline, which are scheduled for delivery in the remainder of 2007. Letters of intent have also been executed for the lease or sublease of three Airbus A340 aircraft planned for delivery in the remainder of 2007 to other airlines. In addition, five Airbus A340 aircraft are expected to be subleased in 2008. In addition, one Airbus A320 aircraft is planned to be removed from service and returned to the lessor in the fall of 2007, two Airbus A340 aircraft will be returned to lessors in the remainder of 2007 and one Boeing 767-200 aircraft will be retired in 2007.

In Quarter 2 2007, revenues from subleasing aircraft to third parties amounted to $6 million ($7 million in the first six months of 2007).

9.7. Air Canada Pension Plan Cash Funding Obligations

Air Canada's pension plan cash funding obligations have been updated from those disclosed in ACE's 2006 annual MD&A dated February 14, 2007.

As at January 1, 2007, the solvency deficit in the domestic registered plans was $542 million compared to $1,655 million at January 1, 2006. This reduction in the solvency deficit of the plans represents a significant improvement in the financial position of the plans with the solvency ratio for all plans on a combined basis increasing from 86% to 95%. This improvement results from the combination of the following factors:

- A 13.6% return on plan assets, net of expenses;
- Significant company contributions to the plans including $261 million for past service;
- A stable interest rate environment in 2006.

This improvement causes the financial position of the plans as at January 1, 2007 to be ahead of schedule compared to the projected financial position assuming no experience gains or losses and using the initial repayment schedule negotiated with the Office of the Superintendent of Financial Institutions ("OSFI") in 2004.

The schedule of required past service contributions to domestic registered plans, based on the January 1, 2007 actuarial valuations, is reduced compared to the schedule of past service contributions that would have been required based on the January 1, 2006 valuations by approximately $115 million in 2007 and $150 million per annum for the years 2008 to 2013.

The table below provides revised projections for Air Canada's pension funding obligations for the remainder of 2007 and for the full years 2007 through to 2011:

Air Canada ($ millions)	Remainder of 2007	Full year 2007	2008	2009	2010	2011
Past service domestic registered plans	9	134	91	92	93	93
Current service domestic registered plans	90	164	166	171	176	181
Other pension arrangements	57	86	86	65	69	74
Projected pension funding obligations	**156**	**384**	**343**	**328**	**338**	**348**

The above pension funding requirements are in respect of the Corporation's pension arrangements. For domestic registered pension plans, the funding requirements are based on the minimum past service contributions disclosed in the January 1, 2007 actuarial valuation plus a projection of the current service contributions.

Changes in the economic conditions, mainly the return on fund assets and changes in interest rates will impact projected required contributions. The required contributions and solvency deficit disclosed above assume no future gains and losses on plan assets and liabilities over the projection period and do not reflect the economic experience of 2007 to date. The increase in long-term interest rates since the beginning of the year, if maintained, would be expected to further decrease the required contributions and solvency deficit and will be reflected in the January 1, 2008 actuarial valuations.

9.8. 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 June 30, 2007, Air Canada had hedged 48% of the remainder of its projected fuel requirement for 2007 and 3% of its projected fuel requirement for 2008. Since June 30, 2007, Air Canada has entered into new hedging positions, using collar option structures, which have added 4% coverage to 2007 increasing the total hedged volume for the remainder of 2007 to 52%. The remainder of 2007 is hedged at prices that can fluctuate between an average of US$84 to US$88 per barrel for jet-fuel based contracts, an average of US$70 to US$77 per barrel for its heating oil-based contracts and an average of US$61 to US$68 per barrel for its WTI crude oil-based contracts. Using equivalent WTI pricing, Air Canada has hedged the remainder of its projected fuel requirements for 2007 at prices that can fluctuate between an average of US$64 to US$70 per barrel. Air Canada has hedged its projected fuel requirements as follows: 49% for Quarter 3 and 56% for Quarter 4.

Refer to section 11 of this MD&A for information on the Corporation's reporting of fuel hedging derivative instruments.

10. QUARTERLY FINANCIAL DATA

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

($ millions, except per share amounts)	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007[(2)]	Q2 2007[(3)]
Operating revenues	2,833	2,362	2,484	2,682	2,947	2,544	2,625	2,659
Special charge for Aeroplan miles[(1)]	-	-	-	-	(102)	-	-	-
Operating revenues	**2,833**	**2,362**	**2,484**	**2,682**	**2,845**	**2,544**	**2,625**	**2,659**
Operating expenses	(2,512)	(2,396)	(2,546)	(2,501)	(2,642)	(2,471)	(2,654)	(2,563)
Operating income (loss)[(4)]	**321**	**(34)**	**(62)**	**181**	**203**	**73**	**(29)**	**96**
Total non-operating income (expense), non-controlling interest, foreign exchange gain (loss) and income tax [(5)]	(50)	(68)	180	55	(100)	(122)	(43)	22
Net income (loss)	**271**	**(102)**	**118**	**236**	**103**	**(49)**	**(72)**	**118**
Earnings (loss)								
Per share – basic	**2.67**	**(1.01)**	**1.15**	**2.32**	**1.01**	**(0.48)**	**(0.70)**	**1.14**
Per share – diluted	**2.33**	**(1.01)**	**1.12**	**2.05**	**0.95**	**(0.48)**	**(0.70)**	**0.98**

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. *ACE ceased consolidating Jazz's results effective May 24, 2007.*
4. *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 and Quarter 2 2007 include special charges for labour restructuring of $9 million and $6 million, respectively.*
5. *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. Quarter 2 2007 includes a gain of $4 million and a tax provision of $1 million relating to the sale of 0.249 million shares of its holdings in US Airways.*

Seasonality

Air Canada and Jazz 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 airlines have substantially fixed costs that do not fluctuate proportionately with passenger demand and load factors. 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.

11. 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 June 30, 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 9.8 of this MD&A for Air Canada's hedging position as at June 30, 2007 and as at August 9, 2007. Refer to Note 7 of ACE's Quarter 2 2007 interim unaudited consolidated financial statements for additional information.

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 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 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.

The following table provides changes in fair value of designated hedging items before the impact of tax during the six months ended June 30, 2007:

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

OCI amounts for the three months ended June 30, 2007 are presented net of tax expense of $6 million in ACE's Consolidated Statement of Comprehensive Income ($9 million for the six months ended June 30, 2007).

Foreign Exchange Risk Management

During Quarter 1 2007, Air Canada's currency swaps for five CRJ aircraft 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.

Air Canada enters into certain foreign exchange forward contracts or currency swaps to manage the risks associated with foreign currency exchange rates. As at June 30, 2007, Air Canada had entered into foreign currency forward contracts and option agreements on US$1,574 million of future purchases in 2007 and 2008. The fair value of these foreign currency contracts as at June 30, 2007 is $73 million in favour of the counterparty (December 31, 2006 - $25 million in favour of Air Canada on $503 million 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.

12. 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 11 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.

13. 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 six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.
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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. However, the following risk factor relating to investigations on proceedings regarding anti-competitive cargo pricing activities has been updated and restated as follows:

Current Legal Proceedings

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 may lead to proceedings against Air Canada and a number of airlines and other cargo operators. 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.

16. NON-GAAP FINANCIAL MEASURES

EBITDAR/EBITDA

EBITDAR (earnings before interest, taxes, depreciation, amortization, obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent, 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 businesses 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:

	Quarter 2			Six months ended June 30		
($ millions)	**2007**	**2006**	**$ Change**	**2007**	**2006**	**$ Change**
Air Canada						
GAAP operating income (loss)	88	113	(25)	10	(11)	21
Add back:						
Aircraft rent	71	83	(12)	144	166	(22)
Depreciation, amortization and obsolescence	136	118	18	264	233	31
EBITDAR	**295**	**314**	**(19)**	**418**	**388**	**30**
Add back:						
Special charge for labour restructuring	-	-	-	-	28	(28)
EBITDAR excluding special charges	**295**	**314**	**(19)**	**418**	**416**	**2**
Aeroplan[1]						
GAAP operating income	-	31	(31)	40	70	(30)
Add back:						
Depreciation, amortization and obsolescence	-	4	(4)	3	8	(5)
EBITDA	**-**	**35**	**(35)**	**43**	**78**	**(35)**
Jazz[1]						
GAAP operating income	26	36	(10)	62	72	(10)
Add back:						
Aircraft rent	22	33	(11)	57	65	(8)
Depreciation, amortization and obsolescence	4	7	(3)	9	11	(2)
EBITDAR	**52**	**76**	**(24)**	**128**	**148**	**(20)**

1. *The information above reflects Aeroplan results from January 1 to March 13, 2007 and Jazz results from January 1 to May 23, 2007. ACE ceased consolidating Aeroplan's and Jazz's results effective March 14, 2007 and May 24, 2007, respectively.*

($ millions)	Quarter 2 2007	Quarter 2 2006	Quarter 2 $ Change	Six months ended June 30 2007	Six months ended June 30 2006	Six months ended June 30 $ Change
ACTS						
GAAP operating income (loss)	9	1	8	12	(18)	30
Add back:						
Depreciation, amortization and obsolescence	11	7	4	20	15	5
EBITDA	**20**	**8**	**12**	**32**	**(3)**	**35**
Add back:						
Special charge for labour restructuring	6	-	6	15	5	10
EBITDA excluding special charges	**26**	**8**	**18**	**47**	**2**	**45**
ACE Consolidated[(1)]						
GAAP operating income	96	181	(85)	67	119	(52)
Add back:						
Aircraft rent	91	113	(22)	195	226	(31)
Depreciation, amortization and obsolescence	149	140	9	295	274	21
EBITDAR	**336**	**434**	**(98)**	**557**	**619**	**(62)**
Add back:						
Special charge for labour restructuring	6	-	6	15	33	(18)
EBITDAR excluding special charges	**342**	**434**	**(92)**	**572**	**652**	**(80)**

1. *The information above reflects Aeroplan results from January 1 to March 13, 2007 and Jazz results from January 1 to May 23, 2007. ACE ceased consolidating Aeroplan's and Jazz's results effective March 14, 2007 and May 24, 2007, respectively.*

The following table provides the EBITDA and EBITDAR reconciliation to operating income of Aeroplan and Jazz published results:

($ millions)	Quarter 2 2007	Quarter 2 2006	Quarter 2 $ Change	Six months ended June 30 2007	Six months ended June 30 2006	Six months ended June 30 $ Change
Aeroplan[(1)]						
GAAP operating income	47	31	16	95	70	25
Add back:						
Depreciation, amortization and obsolescence	3	4	(1)	6	8	(2)
EBITDA	**50**	**35**	**15**	**101**	**78**	**23**
Jazz[(1)]						
GAAP operating income	40	36	4	77	72	5
Add back:						
Aircraft rent	33	33	-	11	65	(54)
Depreciation, amortization and obsolescence	5	7	(2)	67	11	56
EBITDAR	**78**	**76**	**2**	**155**	**148**	**7**

1. *Based on Aeroplan and Jazz published results for the indicated periods.*

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 and ACTS 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:

	Quarter 2			Six months ended June 30		
($ millions)	**2007**	**2006**	**$ Change**	**2007**	**2006**	**$ Change**
Air Canada						
GAAP operating income (loss)	88	113	(25)	10	(11)	21
Add back:						
Special charge for labour restructuring	-	-	-	-	28	(28)
Operating income, excluding the special charge for labour restructuring	**88**	**113**	**(25)**	**10**	**17**	**(7)**
ACTS						
GAAP operating income (loss)	9	1	8	12	(18)	30
Add back:						
Special charge for labour restructuring	6	-	6	15	5	10
Operating income (loss), excluding the special charge for labour restructuring	**15**	**1**	**14**	**27**	**(13)**	**40**
ACE						
GAAP operating income	96	181	(85)	67	119	(52)
Add back:						
Special charge for labour restructuring	6	-	6	15	33	(18)
Operating income, excluding the special charge for labour restructuring	**102**	**181**	**(79)**	**82**	**152**	**(70)**